SECTION 1: INTRODUCTION

The 11-member Nevada Commission on School Funding (the Commission) held its first meeting on September 27, 2019. In accordance with Senate Bill (SB) 543 (2019), Section 11, the Commission has recommended a definition for the optimal level of funding for Nevada education, monetary targets for funding, and potential revenue sources to fully fund the optimal level within ten (10) years.

The Commission has grappled with many aspects of the Pupil-Centered Funding Plan (PCFP) and school funding. Clearly defining the term Optimal Funding is critical since it outlines the strategic investment, financial fuel, and performance indicators necessary to sustain a system of education that is among the best in the nation. The Commission challenged itself to create a definition that was inclusive of all Nevada's students, clear in intent, and measurable, as well as that outlined a progression from the current funding level toward optimal funding. The Commission benefitted from the assistance of subject matter experts who provided bodies of research and information from peer states that have calculated the cost of educational support levels and implemented pupil-centered funding methodologies.

The Commission developed consensus-driven recommendations regarding optimal funding in accordance with the provisions of SB 543. The recommendations reflect extensive public input, information from subject matter experts, and robust deliberations among Commission members who each bring unique experience and perspective to the work. Early in its work, the Commission identified core implementation principles for the PCFP of equity, transparency, accountability, and flexibility. Those principles were also the foundation for the recommendations that are detailed in this report:

1. Optimal funding achieved by meeting a progression of input and output targets.
2. Funding targets quantified in current dollars with annual aspirational monetary goals.
3. Revenue generation focused primarily on tax reform with property and sales tax at the center.

These recommendations are intended to facilitate a strategic investment that will lead, for all Nevada students, to exemplary student achievement on par with the nation's best performance.

Bringing K-12 education funding in Nevada to an optimal level will require a significant and ongoing commitment – both in terms of political will and the investment of necessary resources. The Commission is keenly aware of the enormity of this task, while recognizing the anticipated negative consequences of ongoing inaction and underinvestment in education. There is no

shortage of needs across the spectrum of programs and agencies competing for funding each year with few revenue sources that are sufficient, predictable, and equitable that also keep Nevada competitive in attracting businesses and residents. Still, no program or service offered by any institution can eclipse the importance of providing all of Nevada's children with equitable access to high-quality learning opportunities.

SECTION 2: OPTIMAL DEFINITION AND PROGRESSION

To address Optimal Funding, the Commission developed a conceptual, operational, and measurable definition. In Nevada, Optimal Funding is defined conceptually as:

- The per-pupil funding that enables the State's schools and districts to uniformly and equitably provide resources and services designed to produce exemplary student performance on par with the nation's best.
- A strategic investment to intensify the use of effective practice recommendations contained in the State Improvement Plan, leading to exceptional achievement for all Nevada students.

Rather than assigning a dollar amount to the definition, the Commission created a roadmap – a plan of implementation that can evolve from current funding levels to Adequate Funding with the goal of attaining an Optimal Funding level in the next ten (10) years. As noted, SB 543 contemplated a plan that would fund identified needs over a ten-year period and recognizes that movement from current funding levels to adequate or optimal levels will require a phased approach. Achieving optimal levels of funding – when compared to current funding – will require a significant commitment on the part of the State over the next several sessions of the Nevada Legislature. An steady progression toward enhanced and optimal funding, given the limitations of existing revenues and competing demands, increases the chances of long-term sustainability. Progression toward optimal will need to be coupled with accountability and assurances that the investments made along the way are working as intended to produce improved student opportunities and outcomes.

The progression addresses (1) the initial **restoration** of funds to the original FY 2019-21 budgeted levels, (2) increase to **adequate** funding as recommended by the 2006 and 2018 Augenblick, Palaich & Associates ("APA") studies, and (3) the determination of the requisite **optimal** investment in practices and resources required for all Nevada students to perform on par with the nation's best. Table 1 outlines the fundamental elements for the three levels of funding progression, culminating in Optimal Funding.

Optimal Funding Progression (Table 1)

Element	Restoration	Adequate	Optimal
Definition	Sufficient to bring funding to previous baseline level set during the 2019 Legislative Session, prior to	Sufficient for all students to meet State standards and statutory requirements	Sufficient for strategic investment in practices, resources, and services aligned with Nevada's 5-year renewable strategic

	cuts made to the COVID-19 public health and economic crisis		plan resulting in exemplary student performance.
Measurement	• Meet total funding per local education agency at the legislatively approved budget in the 2019-21 biennium • Set the baseline for performance on student outcomes reported to State and/or federal entities in 2019-20	• The adequate base funding amount identified in the APA report plus inflation, and meeting the identified aspirational weights and related legal requirements • Meet all State and federal standards including: o Achieving student performance benchmarks o Providing required courses and content standard instruction, o Meeting class size and teacher evaluation requirements o Developing required plans; and o Supporting interventions related to Read By 3, Graduation, and student IEP requirements.	• Total funding per student per year plus inflation aligned to local education agency (LEA) expenditures. • Implementation status for uniform and equitable practices, resources, and services as necessary to support the State Improvement Plan (STIP) • Meet the student performance goals outlined in the STIP. • The federal and State funding for Special Education is sufficient to require no dollars be spent from LEA general fund.
Funding Level	• Restore to the baseline of 2019-21 budgeted dollars + inflation, + enrollment growth, + NDE reductions • Funds to support NDE in a process, performance, and change management review	• APA professional judgement per-pupil base (priority) + fully funded target weights + increased total amount for Special Education allocations (separate dedicated mechanism for special education comprised of LEA and SEA components) inflation + enrollment growth + All districts total allocations are above the 2019-20 budgeted level + NDE at adequate level	• Cost estimates to implement strategic investments associated with targeted student outcomes adjusted for student enrollment growth and inflation. • Funds to conduct a "costing out" study using the professional judgement approach and analysis of actual expenditures

Optimal Funding Progression Recommendations

The resulting recommendations were developed over the course of multiple Commission meetings based on presentations, public comment, and PCFP model analysis. In order to achieve Optimal Funding within the ten-year timeline as outlined in SB 543, the Commission recommends the following:

Restore Level:

- **Timeframe:** Within the biennium beginning July 2021

1. Restore funding to the original budgeted amount legislatively approved in the 2019-21 regular session, adjusted for inflation to all districts, charter schools, and NDE.
2. Allocate funds to support NDE in a process, performance, and change management review to ensure transition and efficiencies when moving to a full implementation of the PCFP.

Adequate Level:

- **Timeframe:** Within the next four (4) biennia

1. Fund the State Education Account/Fund at a level to provide adequate per-pupil base with target weights fully funded based on the APA study adjusted for inflation and student enrollment.
2. Fund Special Education at a level sufficient to allow all districts to meet related legal requirements.
3. Allocate sufficient funds to ensure that all districts are funded above the 2019-20 budgeted levels adjusted for inflation and enrollment growth.
4. Allocate funds to increase NDE staffing to a level commensurate with the average staffing for other SEAs considering student enrollment, State demographics, and district structures.

Optimal Level:

- **Timeframe**: Within the biennium beginning July 2023 for the study funds and within the next five (5) biennia and beyond for Optimal Funding Revenue Generation.

1. Allocate funds to conduct a “costing out” study using the professional judgement approach and analysis of actual expenditures to determine the investment required for districts, charters, and NDE to offer the resources, supports, and services necessary to meet the input requirements and output targets in the Nevada Statewide Plan for the Improvement of Pupils (STIP). The study would address the constitutional requirement for a "uniform system of schools" by aligning instructional resources, supports, and services across as well as within school districts.

2. Fund the State Education Account/Fund at a level that will enable ALL districts to offer the associated practices, resources, and services necessary to produce the identified achievement outcomes outlined in the STIP.

SECTION 3: TARGETS AND REVENUE GENERATION

Senate Bill 543 authorized the Commission on Education Funding (the Commission) to identify optimal funding for education and, if such a target were identified, to also recommend a method of achieving the target funding level over the course of ten (10) years. As noted in the report that describes the development of funding targets that are a part of a progression leading to optimality, there are logical and incremental steps between current funding levels and the achievement of Optimal Funding. Also, the Commission considered pathways to evolve Nevada's education funding from its current levels to improved levels of funding adequacy and efficacy and, through those steps, toward funding optimality. This required a multi-step process that included the identification of target funding levels that are in keeping with the stated objectives and funding opportunities that may enable achievement of those objectives. This section summarizes the process that the Commission undertook, and its findings and conclusions with respect to funding targets and funding alternatives.

Recommendation Development

The Commission chose to approach the task of identifying the potential revenue sources required to meet target funding levels through a tax reform or restructuring lens. Rather than identify a new funding source, increasing current tax rates, or targeting single industry taxes, the Commission preferred to examine the Nevada tax system as a means of adjusting the way taxes are collected or managed, improving the efficiency of the tax base, and maximizing the economic and social benefits.

As a critical first step to this process, the Commission identified characteristics and attributes of various taxation approaches. Among the attributes discussed and considered were economic neutrality, flexibility, integration, simplicity, ease of administration, exportability, uniformity, transparency, sufficiency, horizontal and vertical equity, predictability, stability, and political palatability. This exercise resulted in the Commission adopting the following key principles – in order of priority - to guide discussions and future decisions regarding revenue sources:

1. Sufficiency - The ability of the realized revenue to sufficiently fund targeted expenses.
2. Stability/Predictability - The ability of the tax to produce consistent and/or expected revenue in the face of changing economic circumstances over time.
3. Competitiveness - Maintaining a reasonable competitive balance with bordering states.
4. Equity - Horizontal & Vertical - Individuals with similar wealth should pay about the same amount in taxes and those individuals with the ability to pay more taxes should contribute more.

Consideration of Funding Sources

The revenue source characteristics and principles reviewed and prioritized by the Commission were in the forefront of consideration as a variety of funding alternatives were introduced. From the outset, the Commission chose to focus attention upon revenue sources already relied upon in Nevada to fund public programs and services. The rationale for this approach was a recognition that existing revenue sources represent accepted funding methodologies and that it made sense to identify whether additional capacity exists within these sources prior to exploring new funding regimes that may be less politically palatable. The sources initially explored included a wide array of governmental funding options. Given that revenue sufficiency was viewed by the Commission as a primary objective, other traditional funding sources that would produce insufficient revenues to support optimal education funding were excluded from consideration. The remaining focus was upon those revenue sources that could meet the sufficiency threshold: property (ad valorem) taxes, sales and use tax, business taxes, gaming tax, and mining tax. The Commission raised the following concerns:

- The stability and predictability of certain sources – particularly the industry-specific taxes that are subject to economic volatility;
- Business-specific tax sources may prove to be problematic as primary education funding sources due to exposing the funding sources to periodic economic cycles and further exacerbated by conditions created by the COVID-19 pandemic;
- Equity between and among certain clusters of taxpayers; and
- Designing a balanced revenue portfolio for the ensuing decade may require blending and expanding reliance on an array of funding sources to meet the overall funding objectives.

Through thorough and lengthy deliberations, the Commission determined that a nearer-term focus on broader-based property tax and sales/use tax systems would best satisfy the revenue attributes discussed earlier. Therefore, the Commission's identification process for sufficient, predictable, and equitable funding sources Is focused upon existing sales and use tax and upon property (ad valorem) taxes. Each of these will be discussed in further detail.

Property Tax - Property tax in Nevada is determined by multiplying the assessed valuation of property (divided by one hundred) times the combined ad valorem tax rate for the taxing districts in which the property is located. Thus, it is the product of the assessed valuation and the applicable overlapping tax rate.

Tax rates are governed by both the Nevada Constitution and Nevada Revised Statutes. Simply put, the Constitution places limitation of no more than $5.00 per $100 of assessed valuation upon the combined property tax rate levied against property. This is further constrained by a statutory

limit of no more than $3.64 per $100 of assessed valuation. Considering levies outside of the statutory limit, the upward limit of combined ad valorem rates stands at no more than $3.66 per $100 of assessed valuation. There are several units of government - particularly in the less urbanized parts of the State – that exhibit combined tax rates equal to (or near) the $3.66 cap. Thus, while there may be headway within the Constitutional cap of $5.00, no room exists above the $3.66 combined rate (on a Statewide basis) as currently defined in statute.

Further limiting ad valorem tax revenue opportunities is the impact of property tax limitations known as the "abatements." The abatements serve to limit the growth of a taxpayer's property tax obligation from year to year by imposing an upward growth limit of three percent for owner-occupied residential property and eight percent for non-residential property. Beyond these limits, there are also secondary calculations that may further limit the growth in property tax bills from year to year. Application of the abatement limitations from year to year result in realized property tax revenue that – even if the tax rate is held constant – lags well behind the growth in actual assessed valuation. In application, growth in property tax revenue may also lag the growth allowed by the three and eight percent abatement limits. The result is that a penny of property tax is no longer worth a penny of property tax. A more meaningful result is that for those local governments (including school districts) that depend upon property tax, the yield is far less than it was prior to the imposition of the abatement laws. While taxpayers enjoy constrained property tax bills, local governments and school districts must contend with growth in revenue that is less than the growth in the cost of providing services.

On the property assessment side of the equation, Nevada assesses property at the full cash value of the land plus the replacement cost of the improvements to the land (depreciated by 1.5 percent per year for 50 years, to a residual value of 25 percent of replacement cost). Note here that the value of the improvements is determined by replacement cost – not by market value. Note also that the replacement cost is depreciated each year, further increasing the gap between market value and replacement cost. Nevada is the sole state in the country that applies a depreciation factor in valuing property for taxation.

Inherent to the explanation above is a recognition that Nevada does not align the value of property for taxation with the actual or market value of the property. Nevada's system necessarily results in property valuations that are markedly less than the true or market value of the property.

Given the above, the Commission focused its attention upon the property valuation side of the equation with particular emphasis upon the application of depreciation and the imposition of

abatements. The mere fact that one of the largest sources of annual funding for schools is derived from the application of the $0.75 per $100 of assessed valuation operating rate across all school districts in the State necessitates that this funding source be examined for improved application. Beyond the $0.75 tax rate imposed by the State for school operations, several school districts across the State also rely upon property tax to fund a majority of their annual capital needs. If this funding source were broadened without encroaching upon tax rate limitations and the resulting revenue were readily administered through the Pupil-Centered Funding Plan, it offers the most promising, predictable, and sufficient funding source available.

Any measure that would improve the yield from property tax must be accompanied by a change in the abatement laws or revenue will continue to be constrained at the prior abated levels. Property tax is one form of taxation that may be partially offset by the federal government, thereby reducing the net burden borne by the individual taxpayer. In times when state and local property taxes are deductible from federal taxes for many taxpayers, the federal government does pay part of the freight. In a state where return of federal dollars is often at the lower end of the state-to-state comparisons, any federal support of local programs may be considered desirable.

Sales and Use Tax – In Nevada, taxable sales are defined as the retail purchase of tangible personal property that are not otherwise exempt from the application of a sales tax. Thus, if the transaction is neither a retail purchase nor a purchase of tangible property it is not subject to the sales tax and is considered implicitly exempted. Services, which comprise nearly two-thirds of the overall economy, are implicitly exempt since they are not considered tangible. This is an area of taxation that has not kept pace with changes over time, as more of the economy has shifted toward services and away from goods. Also , there are tangible goods that are explicitly exempted from sales tax by way of legislative act such as food purchased at grocery stores, prescription medications, and a host of other goods. In addition to the economy shifting away from goods, numerous exemptions have been enacted. What is left of the sales tax base is merely a fraction of today's economy, leaving much of Nevada's annual commerce exempted from the application of sales tax with only certain areas of trade to form the base against which the sales tax is applied. This comparatively narrow sales tax base, evidenced by historical performance, exposes the base to more volatility than if it were more broadly distributed over more of the economy.

This is an area of taxation that has not kept pace with changes over time, as more of the economy has shifted toward services and away from goods. In addition to the economy shifting away from goods, numerous exemptions have been enacted. What is left of the sales tax base is merely a fraction of today's economy, and the erosion continues. Broadening the sales tax base would

create benefits beyond the opportunity to increase revenue, including creating a base that would be far less dependent upon certain areas of trade – which we know to be economically susceptible to fluctuations – carrying a disproportionate load.

To address the guiding principle of equity when considering adding depth and breadth to the sales tax base, the State would need to distinguish between discretionary and non-discretionary goods and services. Non-discretionary goods or services are those that all consumers cannot do without, while discretionary goods and services are more a matter of personal choice. Levying taxes upon non-discretionary goods and services gives rise to concerns of regressivity as such taxes disproportionately impact those with less ability to pay for them. The focus, then, should be upon discretionary goods and services. Note that broadening the application of any transaction or excise tax also gives rise to a more level playing field among those selling goods and services into the economy. Currently, only some providers of goods and services must account for the application of a sales tax in determining pricing strategies for their products, while others are able to ignore such application.

Funding Targets

A rational metric for the enhancement of funding for K-12 education in Nevada may be steady progression toward national averages for per-pupil spending. Although circumstances vary greatly between and among states with respect to percentages of students who receive their education in rural versus urban settings, student populations requiring special needs, growth trends in overall student populations, and various other factors, movement toward the national averages – particularly for those states that may be on the lower end of the per-pupil spending spectrum – presents itself as a rational basis for comparison to current spending levels.

Additionally, the Commission examined recent and past adequacy studies specific to Nevada (e.g., APA, 2006; APA, 2018) regarding per-pupil spending targets that would – based upon the professional judgment of experts in the field of K-12 education – provide program support more commensurate with academic success for Nevada's students. This process involved consideration of both education inputs and outputs and the reasonable base funding amounts per student, Special Education local and State allocations, as well as target weighted funding needs for English Learners, At-Risk Students, and programs for Gifted and Talented Students.

As a matter of providing a basis for comparison of current and targeted funding for K-12 education, the Commission analyzed current spending (as of Fiscal Year 2020) from all sources in support of base per student funding, weighted funding, and auxiliary services. As noted, this computation includes all State and local funding sources and is based upon a 2020 enrollment

total of 484,863 students on a Statewide basis. **Nevada's per-pupil spending (excluding capital) in Fiscal Year 2020 is determined to have been $9,249 per student**. Again, this value establishes the level at which Nevada currently funds education on a per-pupil basis and is a product of the combined State and local sources divided by enrollment for that year.

As reported by the National Center for Education Statistics (2020), **the national average in per-pupil spending, also excluding capital, was $12,645**. Compared to the national average of $12,645 for 2020, Nevada spent $3,396, or 27 percent, less per student than the national average. Closing the gap of Nevada's current spending level and the national average would require a 37 percent increase, per student, in Nevada's commitment to funding education. Such an increase would need to come from both State and local revenues – the current source of education funding in Nevada.

An alternative view of a spending level threshold, as noted above, would be to consider the recommendations of the subject matter experts APA. Initially engaged by the Nevada State Legislature to perform the Nevada Education Adequacy Study in 2006, APA updated the 2006 study for the Lincy Institute at the University of Nevada, Las Vegas. The table below summarizes the calculations arising from the recommendations.

Estimating the Cost of an Adequate Education in Nevada (Table 2)

	Estimating the Cost of an Adequate Education in Nevada							**Base +**
	Based on APA 2006 study and subsequent updates							**Cost Adj+**
								Trans & Nutr. +
	Professional Judgment Approach							**Weights**
							# Students	**Estimated**
	Description	**CPI/Factor**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**FY2020**	**FY2020 Amount**
3	FY2017 Base - Inflation Adjusted	Average	9,238.00	9,500.29	9,818.22	10,082.52	484,863.00	$ 4,888,640,895
	Cost Adjustments	6%						$ 293,318,454
	Transportation & Nutrition	387.303						$ 92,170,280
	Total Base Plus Cost Adj							$ 5,274,129,628
**	EL	0.50	4,619.00	4,750.15	4,909.11	5,041.26	56,857.43	$ 286,633,088
**	At-Risk	0.30	2,771.40	2,850.09	2,945.47	3,024.76	224,204.42	$ 678,163,665
**	GATE	0.14	1,293.32	1,330.04	1,374.55	1,411.55	9,688.12	$ 13,675,293
	Special Education	1.100	10,161.80	10,450.32	10,800.04	11,090.77	63,038.00	$ 699,140,085
	Total Weighted Programs							$ 1,677,612,130
	Total All Categories							$ 6,951,741,759
	Total Per Pupil							$ 14,337.54

The amount of funding on a per-pupil basis needed to achieve the targets identified by APA, in 2020 dollars, equates to $14,337 per-pupil. This funding target brings the base per-pupil funding (excluding capital), along with the weighted funding for special needs categories, into alignment with spending levels determined to be adequate for Nevada. The gap between Nevada per-pupil funding and the level of funding recommended by the subject matter expert, in 2020 dollars, is

$5,088 per-pupil. To achieve this level of funding would require an increase of more than 55 percent above Nevada's current funding commitment.

The data discussed above is summarized below:

2020 Nevada Per-pupil Funding	$9,249
2020 National Average Per-pupil Funding	$12,645
2020 Subject Matter Expert Recommended Funding	$14,337

The amounts noted above establish the gap between the 2020 Nevada Per-pupil Funding and the national average as a first target, and between the 2020 Nevada Per-pupil Funding and the APA recommended funding level as a second target.

SB 543 allows for the Commission to identify "optimal funding" for K-12 education. While the amounts noted above do not represent optimal funding, they do identify target funding levels leading to Optimal Funding. These targets serve as points along the progression toward optimality until such time as the Optimal Funding level is further defined. In no case can it be presumed that the Optimal Funding level is less than these targets. In addition to identifying funding targets, the Commission is further asked to identify methods of funding to achieve the target funding levels over a ten-year period. The ten-year period noted in SB 543 is assumed to commence with Fiscal Year 2021-22, covering five biennial budgets for the State, continuing through Fiscal Year 2030-31. The ten-year period inherently presumes a phase-in of both funding and spending, with the objective being to achieve the target level of per-pupil funding noted herein by year ten. As such, the per-pupil funding targets will need to be adjusted to account for inflation and will need to consider increases in total enrollment over the ten-year period.

From an aggregate perspective, the annual funding requirements to maintain pace with a ten-year phase-in will be shown under four scenarios. These are:

- **Scenario 1a**: Achieve the national average per-pupil funding target over a ten-year period.
- **Scenario 1b**: Achieve the national average per-pupil finding target over an eight-year period.
- **Scenario 2a**: Achieve the APA recommended funding level over a ten-year period.
- **Scenario 2b**: Achieve the APA recommended funding level over an eight-year period.

For both the national average funding target and the APA recommended funding target, an eight-year scenario is being shown in the event that the State Legislature elects to commence the phase-in of the funding beginning in Fiscal Year 2023-24 in lieu of commencing the phase-in in Fiscal Year 2021-22. Due to a variety of circumstances, this may prove to be a more realistic set of scenarios. Detailed information regarding each scenario follows.

Scenario 1a: As noted, Scenario 1a assumes a ten-year phase-in of funding necessary to achieve a per-pupil spending level of $12,645 (in Fiscal Year 2019-20) dollars by Fiscal Year 2030-31. Per-pupil spending is inflated by two percent per year, while enrollment is increased by 0.5 percent per year. Note that the 2020 values previously cited have been inflated forward to a funding commencement year of 2022. This is assumed since this is the earliest year during which funding enhancements could possibly be made. The inflation and enrollment growth assumptions are identical for each scenario that is shown.

Scenario 1a (Table 3)

				National Average Funding Level (10-Year Phase In)			Status Quo Funding Level		Resulting Shortfall	
School Year (ending)			Estimated Enrollment	Phase-In Percentage	Required Per Pupil Funding Level (Inflation Adjusted)	Required Total Funding (Inflation Adjusted)	Pupil Funding Level (Inflation Adjusted)	Total Funding (Inflation Adjusted)	Incremental Shortfall	Aggregate Shortfall
Year 1	1	2022	489,724	10%	$ 9,977	$ 4,886,025,580	$ 9,623	$ 4,712,548,232	$ 173,477,348	$ 173,477,348
Year 2	2	2023	492,172	20%	$ 10,538	$ 5,186,496,451	$ 9,815	$ 4,830,833,192	$ 182,185,911	$ 355,663,259
Year 3	3	2024	494,633	30%	$ 11,117	$ 5,498,972,716	$ 10,012	$ 4,952,087,106	$ 191,222,351	$ 546,885,610
Year 4	4	2025	497,106	40%	$ 11,716	$ 5,823,867,744	$ 10,212	$ 5,076,384,492	$ 200,597,642	$ 747,483,252
Year 5	5	2026	499,592	50%	$ 12,333	$ 6,161,608,095	$ 10,416	$ 5,203,801,743	$ 210,323,100	$ 957,806,352
Year 6	6	2027	502,090	60%	$ 12,971	$ 6,512,633,916	$ 10,624	$ 5,334,417,166	$ 220,410,398	$ 1,178,216,750
Year 7	7	2028	504,600	70%	$ 13,629	$ 6,877,399,359	$ 10,837	$ 5,468,311,037	$ 230,871,572	$ 1,409,088,322
Year 8	8	2029	507,123	80%	$ 14,309	$ 7,256,373,003	$ 11,054	$ 5,605,565,644	$ 241,719,037	$ 1,650,807,358
Year 9	9	2030	509,659	90%	$ 15,010	$ 7,650,038,293	$ 11,275	$ 5,746,265,342	$ 252,965,593	$ 1,903,772,951
Year 10	10	2031	512,207	100%	$ 15,734	$ 8,058,893,993	$ 11,500	$ 5,890,496,602	$ 264,624,440	$ 2,168,397,391

The table above is structured to show the national average funding per-pupil rolled forward by inflation and enrollment. The product of the enrollment times the required per-pupil funding level yields the required funding to achieve that objective. This can then be compared to current funding, which is also rolled forward by inflation and enrollment. The difference between the required funding and current funding reveals the amount of new revenue each year that must be added to current funding to achieve the national average funding target.

Scenario 1a suggests that by Fiscal Year 2030-31, the required per-pupil spending would need to be $15,734 applied against projected enrollment of 512,207 students in Nevada. The gross funding requirement to achieve this level of funding would approximate $8.06 billion for that year. Current funding, inflated and adjusted forward, would approximate $5.88 billon (if funding efforts by the State were to remain constant). Comparison to the funding requirements suggests that by Fiscal Year 2030-31, an additional $2.17 billion in funding will be required if the target value is to be achieved.

The table assumes that reaching this funding milestone would be achieved by phasing-in the annual funding commitment on a straight-line basis over the ten-year period. The column showing the incremental shortfall represents that additional amount that would be required to be appropriated each year to maintain pace with the funding target.

Scenario 1b: This scenario is identical to Scenario 1a in all respects other than the timeframe over which the funding is applied. Scenario 1b assumes that in lieu of a ten-year funding implementation schedule, the enhancements to funding would commence in Fiscal Year 23-24 and would continue through Fiscal Year 2030-31. Simply put, this scenario assumes an eight-year funding schedule instead of a ten-year schedule. This is provided as an alternative in the event the commencement of the funding enhancements were not to occur until the 2023 session of the Nevada Legislature were to convene and approve funding.

Scenario 1b (Table 4)

				National Average Funding Level (8-Year Phase In)			Status Quo Funding Level		Resulting Shortfall	
School Year (ending)			Estimated Enrollment	Phase-In Percentage	Required Per Pupil Funding Level (Inflation Adjusted)	Required Total Funding (Inflation Adjusted)	Pupil Funding Level (Inflation Adjusted)	Total Funding (Inflation Adjusted)	Incremental Shortfall	Aggregate Shortfall
Year 1	1	2024	494,633	13%	$ 10,472	$ 5,179,956,110	$ 10,012	$ 4,952,087,106	$ 227,869,004	$ 227,869,004
Year 2	2	2025	497,106	25%	$ 11,152	$ 5,543,561,524	$ 10,212	$ 5,076,384,492	$ 239,308,028	$ 467,177,032
Year 3	3	2026	499,592	38%	$ 11,854	$ 5,922,156,507	$ 10,416	$ 5,203,801,743	$ 251,177,732	$ 718,354,764
Year 4	4	2027	502,090	50%	$ 12,580	$ 6,316,264,458	$ 10,624	$ 5,334,417,166	$ 263,492,527	$ 981,847,291
Year 5	5	2028	504,600	63%	$ 13,330	$ 6,726,425,610	$ 10,837	$ 5,468,311,037	$ 276,267,282	$ 1,258,114,573
Year 6	6	2029	507,123	75%	$ 14,105	$ 7,153,197,543	$ 11,054	$ 5,605,565,644	$ 289,517,326	$ 1,547,631,899
Year 7	7	2030	509,659	88%	$ 14,906	$ 7,597,155,711	$ 11,275	$ 5,746,265,342	$ 303,258,471	$ 1,850,890,369
Year 8	8	2031	512,207	100%	$ 15,734	$ 8,058,893,993	$ 11,500	$ 5,890,496,602	$ 317,507,022	$ 2,168,397,391

As is shown, the eight-year implementation schedule still has a target of $15,734 per-pupil in Fiscal Year 2030-31. Since the phase-in of the funding occurs over a shorter span of time, the incremental shortfall amounts, per year, are larger.

Scenario 2a: While Scenario 1a and 1b focused upon achievement of the national average in per-pupil spending of the 2020 equivalent of $12,645, Scenarios 2a and 2b use the APA recommended funding target of $14,337. The assumptions used to inflate and adjust the values on a forward basis are the same as were used in Scenarios 1a and 1b.

Scenario 2a (Table 5)

				Adjusted APA Funding Level (10-Year Phase In)			Status Quo Funding Level		Resulting Shortfall	
School Year (ending)			Estimated Enrollment	Phase-In Percentage	Required Per Pupil Funding Level (Inflation Adjusted)	Required Total Funding (Inflation Adjusted)	Pupil Funding Level (Inflation Adjusted)	Total Funding (Inflation Adjusted)	Incremental Shortfall	Aggregate Shortfall
Year 1	1	2022	489,724	10%	$ 10,152	$ 4,971,775,876	$ 9,623	$ 4,712,548,232	$ 259,227,644	$ 259,227,644
Year 2	2	2023	492,172	20%	$ 10,895	$ 5,362,301,708	$ 9,815	$ 4,830,833,192	$ 272,240,872	$ 531,468,516
Year 3	3	2024	494,633	30%	$ 11,664	$ 5,769,299,669	$ 10,012	$ 4,952,087,106	$ 285,744,047	$ 817,212,563
Year 4	4	2025	497,106	40%	$ 12,459	$ 6,193,350,623	$ 10,212	$ 5,076,384,492	$ 299,753,568	$ 1,116,966,131
Year 5	5	2026	499,592	50%	$ 13,281	$ 6,635,054,219	$ 10,416	$ 5,203,801,743	$ 314,286,345	$ 1,431,252,476
Year 6	6	2027	502,090	60%	$ 14,131	$ 7,095,029,462	$ 10,624	$ 5,334,417,166	$ 329,359,820	$ 1,760,612,296
Year 7	7	2028	504,600	70%	$ 15,010	$ 7,573,915,313	$ 10,837	$ 5,468,311,037	$ 344,991,979	$ 2,105,604,276
Year 8	8	2029	507,123	80%	$ 15,918	$ 8,072,371,293	$ 11,054	$ 5,605,565,644	$ 361,201,373	$ 2,466,805,649
Year 9	9	2030	509,659	90%	$ 16,857	$ 8,591,078,122	$ 11,275	$ 5,746,265,342	$ 378,007,131	$ 2,844,812,780
Year 10	10	2031	512,207	100%	$ 17,826	$ 9,130,738,358	$ 11,500	$ 5,890,496,602	$ 395,428,976	$ 3,240,241,756

Not surprisingly, since the target value is higher than the national average, the amount required on a per-pupil basis in Fiscal Year 2030-31 is also higher. And, in turn, the funding gap between current funding and required total funding is also materially higher. To achieve the Fiscal Year 2019-20 equivalent of $14,337 per-pupil, funding would have to be increased to a per-pupil funding level of $17,826 by Fiscal Year 2030-31. In total, just over $9.1 billion in total funding would be required. Of that amount, current funding projected forward would account for approximately $5.9 billion, leaving an amount to be funded of just over $3.2 billion.

Scenario 2a assumes a ten-year implementation timeframe, similar to Scenario 1a.

Scenario 2b: This scenario repeats the same assumptions previously used but adjusts the funding implementation schedule to an eight-year period.

Scenario 2b (Table 6)

				Adjusted APA Funding Level (8-Year Phase In)			Status Quo Funding Level		Resulting Shortfall	
School Year (ending)			Estimated Enrollment	Phase-In Percentage	Required Per Pupil Funding Level (Inflation Adjusted)	Required Total Funding (Inflation Adjusted)	Pupil Funding Level (Inflation Adjusted)	Total Funding (Inflation Adjusted)	Incremental Shortfall	Aggregate Shortfall
Year 1	1	2024	494,633	13%	$ 10,700	$ 5,292,592,340	$ 10,012	$ 4,952,087,106	$ 340,505,235	$ 340,505,235
Year 2	2	2025	497,106	25%	$ 11,616	$ 5,774,488,324	$ 10,212	$ 5,076,384,492	$ 357,598,597	$ 698,103,832
Year 3	3	2026	499,592	38%	$ 12,565	$ 6,277,241,100	$ 10,416	$ 5,203,801,743	$ 375,335,525	$ 1,073,439,357
Year 4	4	2027	502,090	50%	$ 13,547	$ 6,801,594,080	$ 10,624	$ 5,334,417,166	$ 393,737,556	$ 1,467,176,913
Year 5	5	2028	504,600	63%	$ 14,563	$ 7,348,314,855	$ 10,837	$ 5,468,311,037	$ 412,826,904	$ 1,880,003,817
Year 6	6	2029	507,123	75%	$ 15,614	$ 7,918,195,940	$ 11,054	$ 5,605,565,644	$ 432,626,478	$ 2,312,630,296
Year 7	7	2030	509,659	88%	$ 16,701	$ 8,512,055,544	$ 11,275	$ 5,746,265,342	$ 453,159,906	$ 2,765,790,202
Year 8	8	2031	512,207	100%	$ 17,826	$ 9,130,738,358	$ 11,500	$ 5,890,496,602	$ 474,451,554	$ 3,240,241,756

As with Scenario 1b, since the funding is phased-in over a shorter period, the amount needed per year increase proportionately. The target per-pupil spending and the aggregate shortfall by Fiscal Year 2030-31 remain the same as in Scenario 2a.

Funding Alternatives to Achieve Target Funding Levels

The funding targets - expressed on a per-pupil funding basis - to achieve parity with spending on a national average basis or to achieve the APA recommended funding level have been quantified and expressed as a ten-year funding goal. These targets are expressed as amounts of new funding needed **each year** to maintain pace with either achieving parity with national averages or APA recommended funding levels.

To achieve funding at the national average, an average of $216.8 million per year in new revenue would need to be identified. Over a ten-year period, the range in annual investment ranges from a low of $173.4 million in year 1 to a high of $264.5 million in year 10. If done over an eight-year phase-in, the average incremental annual invest would rise to $271.0 million with a range of $227.9 million in year 1 to a high of $317.5 million in year 8. Compressing the phase-in increases the annual incremental investment, as would be expected. Achieving the APA recommended funding levels over a ten-year period would require an average annual incremental investment of $324.0 million. The range over the ten-year period would be from a low of $259.2 million in year one to a high of $395.4 million in year ten. Compressing the phase-in to an eight-year period would greatly increase these targets – an average incremental increase of $340.5 million, with a range of $340.5 million to $474.4 million.

For the remainder of this document, a ten-year phase to reach the funding targets that have been established and require significant commitments of new funding per annum, well above the current level of funding commitments from state and local sources. The magnitude of the funding challenge dictates that administrative ease and transparency be considered, translating into a preference for the use of existing tax regimes versus those that would otherwise need to be developed from scratch. The capacity of existing tax sources would suggest there is ample room within those systems that are already in place to address the identified needs. Given that a premium is placed upon revenue sufficiency, predictability, and equity, the roster of potential funding sources also shrinks.

As noted, there are only two sources of tax revenue that have the capacity to achieve these levels of annual funding increases – property tax and sales tax. While other tax sources can certainly be considered to complement or supplement the overall funding strategy, the revenue demands to achieve the targeted levels of funding would not be achievable without significant contributions from the tax capacity that exists within the property and sales tax systems.

Examining property taxation first, virtually no enhancement opportunities exist without first addressing the constraints inherent to the current system of property tax abatements. While the

abatement program has served to suppress the growth of property tax assessments to property owners, it has also served to diminish the revenue capacity of property taxation. It is worth bearing in mind that the abatement program was put into place at a time – just prior to the housing bubble in the mid-2000's - when county assessors were concerned that property assessments would be the cause of rising property tax bills. Much has changed since that time.

Some facts about the impact of the abatements:

- Statewide, property tax revenue today is about equal to what was generated in Fiscal Year 2008-09.
- When inflation adjusted and applied on a per capita basis, property tax revenue today is comparable to Fiscal Year 2006-07.
- In recent years, property tax has declined on an inflation-adjusted per capita basis. It remains below the 20-year average.
- Today, on a statewide basis, abatements total over $1.05 billion. Over the course of the 2019-21 biennium, abatements are expected to total $2.1 billion.
- K-12 educations share of the abatements is roughly 40 percent of the total, amounting to $840 million over the 2019-21 biennium.
- Abatements represent **taxes that are assessed, but not billed** or collected.
- All other changes to the system of property taxation are constrained by the abatements, meaning that changes to the application of depreciation, method of assessment, increases to rates, or any other alteration would be muted by the abatements.

The current level of accrued abatement exceeds $1 billion, which is an annualized value. If 40 percent of this amount is directly attributable to the tax rate for education and further presuming that the abatements will continue to grow over time and over the course of the ten-year funding period, it is estimated that placing the abated amounts into productive use could address approximately half of the funding challenge identified in Scenario 1a. Since the abatements form an essential element of any funding plan for education, the next question would focus upon how the abatements may be used to address the challenge.

The Commission recommends the following for consideration:

1. At the very least, cap any further accrual of abatements. The more the abatements increase, the greater the opportunity cost. As the tables in this report evidence, the longer it takes to achieve the target funding, more and more funding is needed each year to catch up.
    a. Consider phasing out or eliminating the abatements to bring the abated funding into the equation for education and other government programs.

b. Modernize the property tax assessment system to address:
    i. The impact of keeping the depreciation factor in place, as it further erodes the assessed valuation base for improvements to real property. Depreciation could be capped, phased-out or eliminated.
    ii. Migrate away from an assessment system that relies upon replacement value of improvements as opposed to the market value of the improvements. As the replacement value is further diminished by depreciation, the gap between market and taxable value widens. This could be accomplished by updating valuation to market valuation upon transfer of title, or on a more sweeping basis.
c. Consider revisiting the $3.66 combined ad valorem rate cap. This can take one of two forms. The first would be to consider any additional headroom that may be needed to reach the funding targets (following the alternation of the abatement constraints and the modernization of the assessment system) and allow for property tax rates to migrate upward to assist in filling that gap. As noted earlier in this report, it is the statutory caps that constrain current rates; rates are materially under the State's constitutional cap of $5.00 per $100 of assessed valuation.
d. An alternative approach would be to remove the abatements and make other adjustments to the assessment system (i.e., elimination of depreciation, market-based valuation, etc.) while reducing current ad valorem tax rates to a point of revenue neutrality. While this approach would not generate additional revenue, per se, it would significantly reduce current combined ad valorem tax rates, thereby increasing headroom under the statutory caps. This headroom could then be used to increase education funding – whether by direct legislative action or through initiatives placed before the electorate. Note that due to the requirement for equal and uniform funding, such a ballot initiative would require approval on a Statewide basis.

It is estimated that the combined impact of the above measures has the combined capacity to fund a majority of the funding needs identified previously. If all were to be applied by year 10 of the funding horizon, sufficient capacity may exist to fully fund the needs identified in Scenario 1a.

Opportunities exist within Nevada's sales and use tax system, beyond simply increasing the tax rate. In fact, due to the comparatively high tax rates in the more urbanized areas of the State, there is far less headroom with respect to the tax rate. Nevada's comparatively narrow base

against which tax rates are applied offers far more opportunity to not only enhances revenue production but to also equalize rates between and among different areas of commerce. This, in turn, would also make Nevada's sales tax system less volatile over time as it would spread the production burden over a larger number of industries and areas of trade. Expansion of the sales and use tax base is as much an argument for modernizing the system as it is for revenue enhancement.

Nevada's sales and use tax rates are solely applied to the retail purchase of tangible personal property. By definition, this implicitly exempts any items that are either personal property or not sold at retail from sales or use taxation. In essence, it exempts a majority of the economy and areas of trade from taxation. Further eroding the narrow base are the various and sundry explicit exemptions. Over time, due both to the ongoing shift in the economy from goods to services and the layering on of explicit exemptions, the narrow base becomes even more narrow. This has exposed the sales and use tax system to erosion and has made it more susceptible to economic downturns.

Using a companion tax rate of 6.85 percent, every additional $1 billion in trade that is captured by the companion services tax would generate more than $65 million per year. As this is in current dollar terms, this amount could grow to more than $100 million per year by year ten of the funding horizon. This level of funding would achieve nearly 40 percent of the annual amount needed by year ten in Scenario 1a, and roughly 20 percent of the amount needed in Scenario 2b. Identification of between $3 and $4 billion in additional trade that could be taxed would fully fund the needs identified in Scenario 1a. Given the expanse of currently untaxed trade that exists, this is feasible.

SECTION 4: CONCLUSION AND NEXT STEPS

Nevada ranks among the bottom of all 50 states when comparing per-pupil funding for education, which results in fewer educational opportunities for our students and hinders student success. Because we know that investing in our children's education is the key to our State's economic future, the Commission on School Funding was charged with recommending a pathway toward an optimal level of funding for public schools in Nevada. Enhancement of funding is considered essential for any measure of adequacy or optimality.

To this point, the Commission has focused upon property and sales tax recognizing that both of these tax sources cut across all areas of the economy. Residents, visitors, and businesses of all types purchase goods and services, and residents, non-residents and businesses own or rent property. Beyond the tax sources identified herein, the State could consider supplemental taxing sources, including industry-specific taxes (gaming tax, mining tax, insurance tax, etc.) or business taxes (commerce tax, modified business tax, etc.). These sources lack the revenue generating potential needed to fund the amount required to address the education funding challenge, either individually or possible even collectively. That said, they could be considered as a part of an effort to broaden the tax portfolio, or to supplement as needed.

The Commission recognizes that elements of some of the recommended changes to the property tax system are being considered by the 81st (2021) Session of the Nevada Legislature. Legislation dealing with the impact of the property tax abatements and depreciation have been introduced, but these would only provide modest amounts of enhanced funding for education. This is acknowledged as a positive beginning to broader dialogue, advocacy, and efforts to increase funding to Nevada students, the Commission recommends substantive tax reform in the areas of property and sales tax be examined and analyzed further. Education funding reforms must go beyond a single rate increase or industry-specific tax while keeping Nevada competitive and ensuring taxes are equitable both vertically and horizontally. To achieve Optimal Funding for our students' education, Nevada must generate sufficient revenue dedicated to public education funding that ensures stability and predictability while accommodating for inflation and enrollment growth. To achieve the identified funding levels, more sweeping changes will be required. The education funding targets will require a significant commitment on the part of the entire State if the desired improvements are to be achieved.

Over the course of 2021, the Commission will continue to examine the details regarding the property and sales tax base and exemptions in order to make more refined and specific

recommendations for Optimal Funding revenue generation. The Commission will take the following approach:

1. Review all explicit exemptions for appropriateness and eliminate those that have exceeded their useful life.
2. Review the items that are either implicitly or explicitly exempted from sales and use tax and segregate those items that are considered discretionary purchases. Non-discretionary purchases should be avoided as they would lead to elevated regressivity, while discretionary purchases lessen this concern.
3. Consider implementing a services tax on the discretionary items identified among the currently non-taxed items. This tax can be a companion rate to the rate that is currently imposed upon tangible personal property purchased at retail. Considering a companion tax avoids complications inherent to the application of the current sales and use tax.