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Charter School Reserve Analysis Work Group

Interim Report

Considering the Applicability of Ending Cash Balance Limits Under NRS 387.1213 to Nevada Public Charter Schools

The Review of Nevada's 17 Public School Districts and the State Public Charter School Authority, created in response to Executive Order 2023-005 issued by Nevada Governor Joe Lombardo, directed further research into several matters impacting school funding and operations. Among those questions, Section 3.4 of that report requested an inquiry into whether charter schools should be included in the requirements of NRS 387.1213(1) which provides:

The Education Stabilization Account is hereby created in the State Education Fund. [E]ach year after the close of the previous fiscal year and before the issuance of the State Controller's annual report, each county school district shall transfer from the county school district fund to the Education Stabilization Account any amount by which the actual ending fund balance of the county school district fund exceeds 16.6% of the total actual expenditures for the fund.

NRS 387.1213 expressly exempts money apportioned to school districts for capital projects or debt service from consideration to revert to the ESA (NRS 387.1213(b)), as well as funds from reserves accumulated prior to 2020 and any revenues specifically attributable to mining.

The Audit Section 3.4 Conclusion requests, "A study to determine whether or not charter schools should be held to the same standard would ensure there is equity in funding between school districts and charter schools."

However, charter schools and district school funding sources are not equitable, most notably in that Charter Schools lease facilities with PCFP funds or buy/build facilities through financing which is secured by their PCFP funding and cash reserves, while most Districts build facilities through bonds secured and funded by local property tax dollars. This important distinction in funding, with charters utilizing PCFP dollars for capital projects, requires distinct treatment of the PCFP reserves for charter schools.

While the requirements of NRS 387.1213(1) cannot be equitably applied to charters, because the funding sources available to charter schools are not equitable, further study of alternative parameters or reporting requirements that could be placed upon charter school reserves could be recommended.

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Given the current focus on reducing the reporting burden on public schools, it would be counter-productive to rush to recommend additional reporting on this issue until all additional data points outlined below can be fully gathered and reviewed. The Commission could continue our review into 2027 to evaluate potential reporting and expenditure parameters for future legislative review.

- I. Data Reviewed and Considered
 - a. SPCSA presentation regarding Charter School Reserves in February 20th Commission Meeting
 - b. Somerset Academy of Las Vegas Capital Reserve Study
 - c. S&P Global Ratings report of 2024 Medians: Charter Schools with investment grade ratings have 182.7 to 227.4 days of unrestricted cash on hand.
 - d. Review of NRS 387.303 reserve reports showing 58 charter school board reserve amounts varying from 1.3 % of Annual Expenditures (Innovations International Charter School) to 171% of Annual Expenditures (Freedom Classical Academy)

- II. Additional Data Needed for any Possible Recommendations
 - a. Accurate and consistent measures of ending fund balances- “The Executive Audit reports, “The ending fund balance for the general fund was accurately recorded from the ACFR by 29% (5 out of 17) of school districts and 8% (4 out of 53) of charter schools. Exhibit 3.4 illustrates the results. The inaccuracy of the beginning and ending fund balances suggests that the 387 Report does not accurately represent the audited revenues and expenditures of the school districts and charter schools.”
 - b. More detailed reporting from individual charter schools regarding the make-up of reserve funds between PCFP funds and other sources.
 - c. Expanded information gathering on property ownership by charters and additional Capital Reserve Studies on those properties
 - d. Increased data regarding financing implications of fund restrictions
 - e. Consultant review of any applicable reserve guidelines issued by Charter Authorizers in other states
 - f. Request SPCSA input on possible Reserve Expenditure Guidelines that could be provided to Charter School Boards and Monitored for compliance.

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- III. Potential Actions for Future Considerations
 - a. Add Specific details to the existing annual Capital Improvement Plan reports to include references that tie to the School's Current Reserve Funds
 - b. Potential new Governance Standards for Charter School Boards to maintain a Capital Expenditure Committee and comply with Reserve Expenditure Guidelines
 - c. While multi-year reserves may need to exceed 16.6% for Charter Schools due to the lack of a separate Capital Needs revenue stream, Single Year reserves could still be restricted