

# **NEVADA SCHOOL FACILITIES CONSTRUCTION AND MAINTENANCE**



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**Prepared for the Nevada SAGE Commission (AB421)**

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Photos (previous page): White Pine County School District, various schools; Source: Author



# Nevada School Facilities Construction and Maintenance

## Executive Summary

Over the past two decades, Nevada has experienced tremendous population growth, particularly in Clark and Washoe Counties. The steady growth has placed tremendous demands on Nevada's infrastructure and the capacity of our State's public school facilities. As such, the need to construct and upgrade K-12 public school facilities has become a major issue in both urban and rural counties. Facilities throughout the State are aging and need significant upgrades or replacement.

In 2015, the Nevada Legislature established the Spending and Government Efficiency (SAGE) Commission (AB 421) to assess best practices in education and the fiscal management of education funding in the State. In the following pages, we describe school capital facilities and maintenance needs across the State, discuss financial drivers of school construction costs, and conclude by offering a series of recommendations.

### 1. Consider whether the State should expand its role in the issue of the construction and maintenance of school facilities

### 2. Consider having the State establish uniform criteria for assessing the condition of facilities and prioritizing facilities needs

- The SAGE Commission could recommend that school districts, in coordination with the State, develop uniform criteria for what good repair, life cycles, and prioritization of needs means.
- The Commission could suggest that the State conduct a statewide assessment using the same criteria across all districts, and maintain a statewide database of the condition of school facilities and equipment.

### 3. Identify new sources of revenues to support construction/maintenance of school facilities

- The SAGE Commission could suggest that the Legislature explore resourcing the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335) or establishing a new statewide funding vehicle.
- The Commission could recommend that the Legislature consider requiring school districts to set aside funds for deferred maintenance and other major maintenance items.
- Revisit and revise existing tax policies in order to increase potential revenues available to school districts, particularly small and rural school districts.
  - The State could increase the population threshold of the residential construction tax to 100,000 so that school districts do not lose access to this source of tax revenue should their population exceed 55,000.
  - The State could make the governmental services tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.
  - In 2013, the Legislature adopted a provision to allow ad valorem taxes to be increased without voter approval, which expired on January 1, 2014. This measure could be revisited by the Legislature and the deadline for action could be extended.
- The SAGE Commission could recommend that the Legislature consider requiring jurisdictions to collect impact fees to be paid directly to school districts when new development occurs.
- The Governor's Office of Economic Development (GOED) should consider a formal assessment of school capital needs and facilities impact prior to the approval of development incentives.

**4. Consider the impact of instructional requirements and management systems on facilities**

- When launching new educational (instructional) programs or requirements, the SAGE Commission could suggest that the State assess and quantify the impact of programs on school facilities issues.
- The Commission on Educational Technology should establish and adopt standards for the application of technology in school facilities.

**5. Improve efforts to secure land for school sites**

- The SAGE Commission could suggest that the State help contain the costs of identifying and selecting a site for new schools by adopting guidance or legislation that addresses the following issues:
  - Standardize the amount of land that must be set-aside by developers for elementary, middle, and high schools and require jurisdictions to enforce set-asides for school sites;
  - Require that land be provided to school districts without charge by developers (or at a significant discount), or require jurisdictions to collect impact fees that can be allocated to school districts to pay for new schools;
  - Require that if the location of land set aside for a school must be moved, a new comparable site of the same size must be provided; and
  - Require developers to pay the full share or a portion of the costs of infrastructure improvements.

**6. Assess the benefit of expanding the role of the State in developing design guidelines and standards**

- The SAGE Commission could suggest that the State explore whether there would be a financial benefit from expanding its role in the development of design guidelines and standards.
- Nevada could develop cost guidelines for architecture/engineering fees for school facilities projects to standardize expectations and control costs.

**7. Leverage existing State resources to improve the delivery method**

- The SAGE Commission could recommend that the State consider the benefits of taking on a significant role to assist small school districts with design and project management.
- The State should consider removing the sunset from the construction manager at risk (CMAR) process, which expires on June 30, 2017 unless further Legislative action is taken to extend it.
- The Commission could recommend that school districts explore creating incentives for contractors to retain a portion of realized savings if they finish under budget or ahead of schedule.

**8. Improve financing options available to school districts**

- The SAGE Commission could recommend that the Legislature review the value and/or need of the Permanent School Fund to determine whether the cap can or should be increased in statute.
- The Commission may consider proposing that the State expand the definition of capital expenditures and what items can be purchased using sources of capital financing.

**9. Explore the creation of new facility funding options for charter schools**

- The SAGE Commission could recommend that the Legislature require school districts to set aside a proportionate share of any new bond proceeds for charter schools located within the district.
- The SAGE Commission could recommend that the Legislature increase the appropriation for the State's new revolving loan fund for charters and offer a matching grant program.
- The State could consider allowing facilities funds to be used for leasing costs at charter schools.



# Nevada School Facilities Construction and Maintenance

## Introduction

Over the past two decades, Nevada has experienced tremendous population growth, particularly in Clark and Washoe Counties. The steady growth has placed tremendous demands on Nevada's infrastructure and the capacity of our State's public school facilities. As such, the need to construct and upgrade K-12 public school facilities has become a major issue in both urban and rural counties. Facilities throughout the State are aging and need significant upgrades or replacement.

The ability to address the facilities needs of school districts, however, is fairly limited despite legislation passed in the 78<sup>th</sup> Legislative Session (2015), which sought to provide some much-needed relief and support to school districts around the State.<sup>1</sup> Additionally, the current structure of financing tools limits the potential impact of these proposed policy changes. Many rural school districts have a narrow tax base that makes it difficult to generate sufficient funding to meet critical facility needs.

A variety of local funding sources are available currently to school districts to address their capital needs, including ad valorem taxes, sales and governmental services taxes, and other local taxes. However, the type of taxes available to each district varies by statute. Also, the State does not currently contribute any funding for school facilities. This has resulted in a set of tools with limited capacity to meet facility needs.

In order to strengthen school districts' ability to address their facility needs, the Nevada Legislature should expand the financing toolkit for K-12 facilities to include new options such as statewide funding, assessment districts, and multi-county tax districts. The State could also modify the current ad valorem tax caps and property tax abatements to increase revenue. Lastly, the State should consider developing a financing plan for schools prior to approval of economic development incentives.

In 2015, the Nevada Legislature established the Spending and Government Efficiency (SAGE) Commission (AB 421) to assess best practices in education and the fiscal management of education funding in the State. In the following pages, we describe school capital facilities and maintenance needs, discuss financial drivers of school construction and maintenance costs, and conclude by offering a series of recommendations to the SAGE Commission.

## Background

Historically, Nevada has played a minimal role in the construction of school facilities. As noted in the 1997 Legislative Counsel Bureau report, *School Construction*, since 1861, only two distinct programs have existed

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<sup>1</sup> Senate Bill (SB) 119 and SB 207 extend expired rollover bond authority for construction and renovation of schools for 10 years without voter approval. For CCSD and the Washoe County School District, these bills extended authority to issue bonds through 2025. For other school districts, this legislation will extend bonding authority for 10 years once the original authority expires. Additionally, SB411 allows all school districts in Nevada, except for Clark County, to create a Public Schools Overcrowding and Repair Needs Committee. The Public Schools Overcrowding and Repair Needs Committee can recommend one or more statutory taxes for consideration by voters at the 2016 General Election to fund the capital projects of the school district.

that provided state assistance to schools for facility construction. One program was enacted in 1955, following the publication of the Peabody Report, which contained analysis of the financial structure of Nevada's public school system; the other program began in 1979, replacing the earlier program. Both programs addressed special financial or growth-related circumstances. "All other legislation has been confined to specific appropriation bills that were introduced to address a particular need."<sup>1</sup> Currently, State aid is not available for constructing new buildings or repairing existing ones.

A 1996 study by the U.S. General Accounting Office (GAO) assessed the role of state involvement in school facilities across the country.<sup>2</sup> The GAO assessed state involvement in three areas related to construction of school facilities: (1) states that provide direct facility funding on an ongoing basis; (2) those that participate in technical assistance or compliance review activities; and (3) states that collect and maintain information about the physical condition of school facilities. According to the report, Nevada and Louisiana were the only two states that reported "no involvement" in any of these three categories. In 2010, the 21st Century School Fund assessed capital spending on PK-20 facilities across the country. Nevada is one of 12 states that does not contribute to local school districts for school facilities capital outlay (see Appendix A).

Given the growing disparities across the State in population, assessed property values, and the capacity for raising tax revenues, the SAGE Commission should consider whether Nevada ought to expand its role in the area of school facilities financing and maintenance. Specifically, the SAGE Commission should consider whether greater State involvement is warranted in the areas of direct financing and technical assistance, and the development of criteria and guidelines in the construction, maintenance, and safety of school facilities.

## **School Facilities Construction and Maintenance**

### **A. Capital Facilities and Maintenance Needs**

In Nevada, funding for school buildings and facilities is the responsibility of local school districts (NRS 387.328 and 387.335). Every local government in Nevada is required to develop and submit a five-year capital improvement plan and submit it to the State Department of Taxation, the county Debt Management Commission, and the Legislative Counsel Bureau (NRS 354.5945). However, these plans do not fully articulate unfunded capital needs. All school districts in Nevada have some level of unfunded capital needs, but State authorities have not yet conducted a comprehensive statewide review to assess maintenance needs of current school facilities and to assess current and projected student enrollment figures against current capacity. In addition, the State has not developed uniform standards for what constitutes adequate school facilities. Washoe County and Clark County use the Facility Condition Index (FCI), which is an industry-standard index that measures the relative condition of a facility by considering the costs of deferred maintenance and repairs as well as the value of the facility. Should the State decide to establish a state-sponsored funding instrument to resource the construction and maintenance of facilities, it would likely need to establish a database with standard and comparable information across districts in order to be able to prioritize how to disburse funds across the State.

There are several types of capital facility and maintenance needs to consider; among these are: (a) Current maintenance needs (e.g., repairs, renovations); (b) Deferred maintenance needs; (c) Current shortage of facilities; and (d) Projected needs based on expected growth.



A summary of facility needs identified by school districts is described below:

- Clark County School District: The Clark County School District (CCSD) currently has 331 school sites plus administrative buildings. CCSD reports that 50 percent of school buildings are over 20 years old and that in five years, 62 percent of buildings will be over 20 years old.<sup>3</sup> CCSD has declared 38 elementary schools to be at capacity and 22 schools operate on year-round schedules.<sup>4</sup> There are also 2,095 portable classrooms throughout the district.<sup>5,2</sup> The district also reports that 16 schools meet current requirements for replacement based on the ratio of renovation costs to replacement value.<sup>6</sup> CCSD undertakes thorough assessments of the condition of its facilities once every five years using the Vanderweil Facility Assessment.<sup>7</sup> CCSD projects that it needs \$8.3 billion in capital improvements; this amount does not include deferred maintenance.<sup>8</sup>
- Washoe County School District: Twenty-five percent of schools in the Washoe County School District (WCSD) are over 50 years old.<sup>9</sup> Within 5 years, WCSD projects that virtually every elementary school will be at capacity with several boundary area schools at overcapacity, half of middle schools will be overcapacity, and two high schools will be overcapacity while others will face enrollment strain.<sup>10</sup> WCSD has developed a Strategic Blueprint that identifies a need of \$123.6 million *per year* for capital facilities from 2016 through 2024.<sup>11</sup> Specifically, over the next 10 years, the district has \$225 million in unfunded school renovation and repair needs. WCSD estimates it will also need at least 16 new schools over the next decade (nine elementary, four middle, and three high schools) based on current needs and projected growth at a cost of \$887 million. This brings the total 10-year capital need to \$1.1 billion. WCSD has undertaken extensive work to identify and document facility needs. The District assesses its facilities annually and publishes the results in an online data gallery, which includes a detailed list of repair and replacement needs and photos.<sup>12</sup>
- Rural districts: Fifteen percent of rural schools are over 50 years old, which represents approximately \$450 million in replacement costs.<sup>13</sup> In addition, approximately 50 percent of rural facilities are in need of improvement.<sup>14</sup> There is great variation in the ability of rural school districts to fund these capital projects. Most districts have critically unmet needs. For example, White Pine School District has two school buildings that are each over 100 years old. The cost of replacing these buildings is \$40 million. In contrast, only two districts have been able to transfer excess net proceeds of minerals taxes from their operating fund to their capital fund to maintain and build new facilities. Over FY 2011 to FY 2015, Eureka transferred \$25.6 million from the general fund to the capital fund and Lander transferred \$26.4 million.

School districts regularly prepare capital improvement plans and some have prepared strategic capital improvement plans. CCSD has a strategic capital plan that projects the district's potential funding over a 10-year period and how those funds will be spent (e.g., new schools, modernization, technology infrastructure).<sup>15</sup> The plan is vetted by CCSD's Bond Oversight Committee and recommendations are made by the committee; the strategic plan is then taken to the CCSD Board of Trustees for final approval. Washoe County School District has developed a "Strategic Blueprint" for the district's overcrowding and

<sup>2</sup> The average cost of a new elementary school is \$25 million. The cost of a new portable unit is approximately \$50,000, excluding the cost of installation and moving, which increases the cost by \$20,000. The expected life span of a portable is 20 years.

repair needs over the next decade; this plan was presented to the Washoe County Public Schools Overcrowding and Repair Needs Committee in November 2015.

## B. Maintenance Expenditures

In the absence of a comprehensive statewide analysis of the needs of school facilities, the SAGE Commission should consider recommending that the Legislature examine how (and whether) routine maintenance and operations expenditures compare to industry standards. Maintenance and operations costs are typically funded out of a district's General Fund. Routine maintenance includes routine and recurring work "to ensure expected life and functions of a facility."<sup>16</sup> This includes: inspections; equipment servicing; replacement of items such as lamps, filters, and failed components; emergency repairs; and routine repair of furniture and fixtures. Operations expenditures include custodial services, security services, and utilities such as water, gas, and electricity.

The industry standard for keeping school facilities in good repair is spending 3 percent of the Current Replacement Value (CRV) on maintenance and operations.<sup>17</sup> The CRV is calculated by multiplying construction cost per square foot by the square footage of each school facility. According to the 20<sup>th</sup> Annual School Construction Report (2015) published by *School Planning and Management*, the average cost of school construction in the western region (including Arizona, California, Hawaii, and Nevada) in 2014 was \$290.33 per square foot for elementary schools, \$368.42 per square foot for middle schools, and \$295.83 per square foot for high schools.<sup>18</sup> Based on data provided by school districts, we estimate that there is nearly 47 million square feet of school facilities in Nevada. Using the average regional cost of school construction discussed above, we estimate that CRV is approximately \$14.9 billion (2014 dollars).

Table 1 reveals that only one Nevada school district (Esmeralda County) is currently meeting the industry standard of spending 3 percent of CRV annually on maintenance and operations. The table shows the estimated CRV for each school district in 2014 dollars (Column B) and the industry maintenance and operations expenditure standard of 3 percent of CRV (Column C). The industry standard is compared to the average of five years of maintenance expenditures (2007-08 to 2011-12) in constant 2014 dollars (Column D).<sup>19</sup> CCSD spends 2.6 percent on maintenance and operations; and Washoe County School District spends 2.52 percent. On average, the rural school districts fare much worse. On average, they spend only 2.3 percent, or 2.2 percent if Esmeralda County, the outlier, is removed.

As a result of the lack of investment in ongoing maintenance and operations, each school district has amassed a large list of deferred maintenance projects. Currently, there are not uniform criteria across the state for determining needs or repair/replacement costs. It is currently not possible to quantify the dollar amount of the deferred maintenance backlog. However, school district officials have indicated that deferred maintenance costs amount to millions of dollars.

There are two primary reasons that Nevada school districts have not adequately funded maintenance and operations. First, school districts faced deep budget cuts during the Great Recession and faced political pressure to keep cuts away from the classroom. This often meant reducing maintenance staff and funds set aside for larger maintenance projects. Second, the State does not have a requirement to set aside funds for maintenance. School districts are currently authorized to create a Fund for Extraordinary Maintenance (NRS 354.6105). This fund is optional and can be used for all expenses ordinarily incurred not more than



once every 5 years to maintain a facility or capital project in a fit operating condition. When this fund was originally created in 1995, school districts with a population of 100,000 or more were required to deposit an amount equal to one-half of 1 percent of the total amount of the bonds sold for each capital project, to be used for future extraordinary maintenance, repair or improvement of that capital project with greater than a 5-year life cycle.<sup>20</sup>

**Table 1: Actual Maintenance Expenditures Compared to Industry Expenditure Standard**

A	B	C	D	E
Name	Current Replacement Value (CRV) Estimate (2014 Dollars)	Maintenance Standard (3% of CRV)	Average Maintenance and Operations Expenditures FY2008- FY2012 (2014 Dollars)	Meet Standard?
Carson City	308,231,360	9,246,941	8,015,060	No
Churchill	203,559,120	6,106,774	5,033,680	No
Clark	10,295,692,993	308,870,790	289,580,716	No
Douglas	287,775,867	8,633,276	7,896,567	No
Elko	436,741,941	13,102,258	12,995,741	No
Esmeralda	11,590,377	347,711	471,484	Yes
Eureka	53,845,440	1,615,363	1,455,009	No
Humboldt	190,317,741	5,709,532	4,561,392	No
Lander	65,910,384	1,977,312	1,237,850	No
Lincoln	81,224,540	2,436,736	1,301,563	No
Lyon	421,249,813	12,637,494	9,121,502	No
Mineral	65,707,510	1,971,225	1,134,555	No
Nye	365,288,231	10,958,647	7,970,093	No
Pershing	72,232,778	2,166,983	1,027,436	No
State Charters		-	3,559,559	
Storey	40,863,787	1,225,914	847,937	No
University Schools		-		
Washoe	2,190,525,041	65,715,751	55,246,040	No
White Pine	107,953,841	3,238,615	1,955,946	No

Source: Guinn Center calculations, Data from <http://tax.nv.gov/LocalGovt/PolicyPub/ArchiveFiles/Redbook/>

Currently, only one Nevada school district (White Pine) is currently using the Fund for Extraordinary Maintenance.<sup>3</sup> Other school districts have set aside funds within their General Fund for deferred maintenance needs. For example, in FY 2016, the Clark County School District set aside \$14 million to address deferred maintenance issues and the Douglas County School District set aside \$300,000 for major maintenance projects. Washoe County School District also uses a portion of its General Fund for school facilities maintenance.<sup>21</sup> Each of these districts has indicated that the funds set aside for maintenance are insufficient to meet the need.

<sup>3</sup> Given the staggering modernization and deferred maintenance needs Clark County School District currently has, it has opted not to participate in the Fund for Extraordinary Maintenance program. The District cannot afford to set aside bond proceeds for at least five years (for new schools that were just built) when they have significant inventory that currently requires modernization and rehabilitation.

One compelling reason for ensuring that districts have sufficient maintenance funds and are, in fact, setting them aside is that regular maintenance can lower operating and building expenses over time. School district officials have noted that when preventative maintenance is not done, this can impact the life span of facilities and equipment. As Clark County School District officials have noted, “deferred maintenance costs more in the long run by forcing the district to replace machinery and renovate schools sooner.”<sup>22</sup> School district officials estimate that districts will end up paying \$4 in capital costs over time because emergency repairs or replacements will be needed, but deferred.<sup>23</sup>

Other states require funds to be set aside for maintenance. For example, California requires school districts that received state bond funds to set aside two percent of General Funds annually for routine restricted maintenance (CA Education Code 17014). Additionally, California has a State Facilities Program (SFP) which provides a per student grant to participating school districts for new construction and modernization. School districts that receive a grant are required to set aside 3 percent of their annual budget for routine maintenance.<sup>24</sup>

Ohio requires school districts to set aside an amount equal to 3 percent of formula funding or 3 percent of prior year base revenue for acquisition, replacement, enhancement and maintenance or repair of permanent improvements (ORC Section 5705.01 and Am. Sub. HB 64 of the 131<sup>st</sup> General Assembly).<sup>25</sup>

All school districts spend resources on maintenance and operations expenses. However, with the exception of Esmeralda County School District, they are not meeting the industry standard. The SAGE Commission may want to consider recommending that the Nevada Legislature require school districts to set aside a specific percentage of funds for deferred maintenance and other major maintenance items. Districts could be required to set aside a percentage of General Funds and/or bond funds in the Fund for Extraordinary Maintenance. Alternatively, the program could be set up as an incentive where the State would match up to a certain amount of local funds; this option could help rural districts in particular. However, any decision to require school districts to set aside maintenance funds would have to be accompanied by measures to increase overall funding so that districts are not forced to meet maintenance set aside requirements by reducing their operations budgets.

### C. Capital Expenditures

The industry standard for capital renewals is 2 percent of CRV.<sup>26</sup> These costs are typically funded out of capital funds since they are substantially larger than routine maintenance expenditures. Capital renewal includes major repair, alteration, and replacement of building systems, equipment, and components that will sustain or extend the useful life of a facility. This standard assumes that facilities have been kept in good repair and that only capital renewals are necessary. It does *not* factor in any deferred maintenance needs that now require substantial renovations, major modernization, or obsolete building replacement. It also fails to factor in enrollment growth.

While this standard provides a limited picture of whether sufficient funds are being spent on capital needs, the SAGE Commission can refer to this standard to obtain a preliminary sense of the adequacy of current capital investments throughout the State.

Table 2 illustrates whether Nevada’s school districts are meeting the industry standard for expenditures on capital renewals. The table shows the estimated CRV for each school district in 2014 dollars (Column B)

and the industry capital outlay expenditure standard of 2 percent of CRV (Column C). The industry standard is compared to the average of five years of capital (2007-08 to 2011-12) in constant 2014 dollars (Column D).<sup>27</sup>

The table shows that 11 school districts are meeting the standard. This may be surprising given that the data provided by school districts shows that they are not meeting their capital needs. Here we note that it is not possible to isolate “capital renewal” expenditures so the data used in this analysis shows all capital expenditures, which includes construction for enrollment growth, obsolete building replacement, and major modernizations. Thus we acknowledge that data calculations *overstate* the levels of actual district spending on maintenance, operations and capital renewal, which means that the spending adequacy analysis *underestimates* the actual gap in spending. Also, expenditures shown for Clark County include years in the late 2000s when the district was engaged in multiple construction projects to address enrollment growth.

**Table 2: Actual Capital Expenditures Compared to Industry Expenditure Standard**

A	B	C	D	E
Name	Current Replacement Value (CRV) Estimate (2014 Dollars)	Average Local Capital Outlay Expenditures FY 2008- FY 2012 (2014 Dollars)	Capital Outlay Standard (2% of CRV)	Meet Standard?
Carson City	308,231,360	12,572,054	6,164,627	Yes
Churchill	203,559,120	2,954,893	4,071,182	No
Clark	10,295,692,993	442,616,567	205,913,860	Yes
Douglas	287,775,867	7,040,270	5,755,517	Yes
Elko	436,741,941	7,254,838	8,734,839	No
Esmeralda	11,590,377	174,765	231,808	No
Eureka	53,845,440	2,221,498	1,076,909	Yes
Humboldt	190,317,741	2,813,462	3,806,355	No
Lander	65,910,384	429,067	1,318,208	No
Lincoln	81,224,540	1,456,632	1,624,491	No
Lyon	421,249,813	12,939,689	8,424,996	Yes
Mineral	65,707,510	269,459	1,314,150	No
Nye	365,288,231	17,047,177	7,305,765	Yes
Pershing	72,232,778	2,049,961	1,444,656	Yes
State Charters		2,402,509	-	
Storey	40,863,787	1,522,375	817,276	Yes
University Schools			-	
Washoe	2,190,525,041	60,651,585	43,810,501	Yes
White Pine	107,953,841	1,411,371	2,159,077	No

Source: Guinn Center calculations, Data from <http://tax.nv.gov/LocalGovt/PolicyPub/ArchiveFiles/Redbook/>

## Capital Facilities Revenue

### A. Revenue Available for Capital Facilities

The tools currently available to school districts to obtain facilities funding have many constraints and have not been adequate, particularly in recent years, to meet districts’ needs. There are three main types of

capital funding provided to school districts: (1) taxes authorized by the Legislature and counties; (2) voter-approved funding; and (3) other local and Federal revenues. All of this funding must be deposited into capital and debt funds and cannot be used for operational expenses. Actual funding received in FY 2014 for each revenue source is shown in Table 3. As presented in Column J of Table 3, revenues per pupil vary greatly throughout the State. Details about these revenue sources and their limitations are provided following Table 3.

**Table 3: FY 2015 Actual Capital Funds Received<sup>4,5</sup>**

A	B	C	D	E	F	G	H	I	J
District	Sales Tax	Residential Construction Tax	Real Property Transfer Tax & Room Tax	Ad Valorem (Voter-Approved)	Governmental Services Tax	Other Local Revenue	Federal Support	Total	Total per pupil
Carson City	0	0	0	5,551,923	493,103	55,387	0	6,100,413	811
Churchill	0	11,610	0	3,683,337	338,081	274,500	109,389	4,416,917	1,266
Clark	0	0	103,444,759	307,869,927	25,573,939	2,683,704	5,630,347	445,202,677	1,400
Douglas	0	223,344	0	2,558,345	1,073,895	6,512	353,719	4,215,815	696
Elko	0	0	0	12,716,166	0	330,186	0	13,046,352	1,323
Esmeralda	0	0	0	0	0	10,269	0	10,269	139
Eureka	0	0	0	55	0	0	0	55	0
Humboldt	0	0	0	2,063,272	278,795	26,969	0	2,369,036	682
Lander	0	0	0	0	0	286,503	0	286,503	273
Lincoln	0	0	0	601,925	166,001	34,435	0	802,361	791
Lyon	0	222,560	0	6,860,865	585,012	121,800	0	7,790,236	966
Mineral	0	0	0	350,128	42,342	568	0	393,038	827
Nye	0	116,033	0	7,374,704	611,623	269,106	0	8,371,466	1,620
Pershing	0	0	0	852,350	151,045	34,034	0	1,037,430	1,499
Storey	0	6435	0	737,653	50,288	2,270	0	796,646	1,987
Washoe	0	0	0	48,960,291	3,512,462	5,423,622	0	57,896,375	917
White Pine	331,854	0	0	717,048	97,128	95,272	0	1,241,302	993
Statewide	331,854	579,982	103,444,759	400,897,989	32,973,714	9,655,137	6,093,455	553,976,891	1,288

Source: NRS 387-303 Report and FY 2015 Nye County School District Audit<sup>28</sup>

Note: Ad valorem taxes (column E) are used primarily for servicing debt (payment of bonds).

## 1. Taxes Approved by the Legislature and Counties

School districts in Nevada receive several types of taxes that are specifically earmarked for capital needs. These taxes present several challenges to school districts. First, school districts lack the authority to impose taxes on their own. Instead, this authority rests with the Nevada Legislature. In some cases, the Legislature

<sup>4</sup> Column G "Other Local Revenue" includes a number of items. For example, \$3,160,773 of the \$5,423,622 Washoe County School District received in "Other local support" came from a *one-time* rebate from NV Energy for previous expenditures for photovoltaic installations at several of the public school facilities.

<http://www.washoeschools.net/cms/lib08/NV01912265/Centricity/Domain/216/Facilities%20Management%20Department%20Plan%202012-13.pdf>

<sup>5</sup> Column H "Federal Support" includes a number of items. For example, in Clark County, Federal support included a subsidized interest payment. During the Great Recession, several new types of bonds were allowed by the Federal government to spur infrastructure construction and create jobs. Collectively, this group of bonds were known as Buy America Bonds and they involved a subsidy of interest expenditures from the Federal government. During this time, CCSD issued debt under the Buy America Bonds (known as Qualified School Construction Bonds). While CCSD was still obligated to service the principal and interest of the bonds, the Federal government has provided an annual revenue to reimburse or subsidize the interest expenditures, effectively creating an interest-free borrowing. However, the amount of subsidy was lowered during the sequester (2013) and has not been restored so the subsidy no longer fully subsidizes the interest of the bonds.

provides county commissions with the ability to decide whether or not to impose a tax that has been authorized by the Legislature. This has led to cases (described below) where school districts did not receive funding authorized by the Legislature. In addition, taxes for capital funding are not universally available to all school districts. Rather, each tax is only authorized for certain school districts based on population size or need. This creates a complex, unequal system that provides vastly different resources for each school district (see Table 3) across Nevada.

- Sales Taxes: There are three statutory provisions that can provide sales tax revenue for school facility needs, but only one provision is currently generating revenue for schools.
  - Nevada Revised Statutes (NRS) 374A levies a sales tax of 0.125 percent for school districts that have applied for a grant from the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335). This Fund was established in 1999 (with a \$16 million appropriation) for school districts with “emergency conditions” but is *not* currently funded. White Pine and Lincoln County School Districts applied for the grant in 2000 and 2005, but White Pine County is the only school district that receives this 0.125 percent sales tax. Table 1, Column B shows that this tax provided \$331,854 in FY 2015.
  - The second option is a 0.25 percent sales tax that can be imposed by the county commission in counties with population of less than 100,000 (NRS 377B.160(3c)). These funds can go towards school or other municipal capital needs. While seven counties levy this tax, all of the revenue goes towards other municipal projects and school districts do not currently receive any funding.
  - The last option was put into place for Washoe County School District in 2013. It allowed the county commission to impose a 0.25 percent sales tax by a two-thirds vote (NRS 377C.100). This tax was not implemented because the Washoe County Commission failed to act by the deadline of January 1, 2014.
- Residential Construction Tax: At the request of a school district, county commissioners in jurisdictions with a population of less than 55,000 can impose a tax on residential construction of up to \$1,600 per unit (NRS 387.331). In FY 2015, five school districts received this funding for a total of \$579,982 (Table 3, Column C). There are several school districts that receive this funding with a population that is close to 55,000 based on 2015 estimates by the State Demographer: Douglas (population 48,347); Lyon (population 53,652), Nye (population 45,619).<sup>29</sup> There are two additional counties that have just over 55,000 residents and do not receive this funding: Carson City and Elko. The SAGE Commission could recommend that the Legislature consider increasing the population threshold to 100,000 so that school districts do not lose access to this tax funding if their population exceeds 55,000. This policy reform would then provide Carson City and Elko with access to these funds. On several occasions, the Legislature has increased population limits on similar tax measures following the national census.
- Real Property Transfer Tax: This tax is levied when property is transferred. Although this is a statewide tax, rates vary by county. In counties where the population exceeds 700,000, the county can collect 60 cents for each \$500 of value or fraction thereof for “deposit in the county school district’s fund for capital projects” (NRS 375.070). Given the population threshold requirement, the Clark County School District is the only school district that receives a portion of this revenue. The district received \$22.1 million in FY 2015 (Table 3, Column D).<sup>30</sup> The SAGE Commission could suggest that the Legislature consider lowering the population threshold so that other districts could take advantage of this revenue.

- **Room Tax:** This tax is levied on the gross receipts from the rental of transient lodging. The tax rate varies by county and the Clark County School District is the only school district that receives a portion of this revenue. The district's rate is 1.625 percent (NRS 244.3354 and 268.0962) and the district received \$81.3 million in FY 2015 (Table 3, Column D).<sup>31</sup>

## 2. Voter Approved Taxes

Voter-approved ad valorem taxes are the largest funding source for school capital needs, generating \$400.9 million in FY 2015 (Table 3, Column E). This includes taxes from both property and net proceeds of minerals. Voters can authorize either general obligation bonds or pay-as-you-go taxes (NRS 387.3285). Districts that have general obligation bonds also gain access to a portion of the Governmental Services Tax, which may be used for capital projects (NRS 428.181). This allocation is in addition to Governmental Services Tax revenue provided to all districts for operation expenses.<sup>6</sup> Statewide, the Governmental Services Tax generated \$33.0 million in FY 2015 (Table 3, Column F). Since not all school districts have been successful in getting voter approval, the State could consider making the Governmental Services Tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.

In 2013, the Legislature adopted a provision to allow ad valorem taxes to be increased without voter approval. This statute allowed the Washoe County Commission to levy an ad valorem tax of 5 cents of every \$100 of assessed value for school district capital projects (NRS 387.3288). A two-thirds vote was required for approval. This tax was not implemented because the Washoe County Commission failed to act by the deadline of January 1, 2014. The SAGE Commission could recommend that the Nevada Legislature revisit this provision and extend the deadline for action.

## B. Factors Affecting When a District Can Bond Against Property Taxes

In order for school districts to bond against property taxes, there must be a confluence of several factors: (1) there must be voter or legislative authorization; (2) the countywide tax rate must be within the \$3.66 per \$100 tax cap; (3) the district tax rate must generate sufficient revenue to pay new and existing debt service; and (4) the district must be below its debt limit. Each factor is discussed below.

### 1. Voter/Legislative Authorization

A school district must have voter or legislative authorization to issue bonds that has not expired. Voters can approve traditional bonds, which are for a specific bond issuance (NRS 387.335). These bonds must be issued within six years of approval. Alternatively, voters can approve rollover bonds, which provide the ability to issue bonds for a ten-year period as long as the same tax rate is maintained (NRS 350.020). Because the time to repay bonds is typically 20 to 30 years, taxes continue to be levied long after the authorization to issue new debt has expired. Bond proceeds can only be used for capital projects (NRS 387.335). Eligible uses are limited to: new construction; renovation of existing facilities; acquisition of land; purchasing vehicles and equipment for transportation of pupils; and furniture and equipment for schools.

<sup>6</sup> Here we note that the allocation of the Governmental Services Tax is affected by whether a school district has general obligation bonds. Specifically, if a district that currently does not have general obligation debt later received voter approval and issued debt, it is likely that some portion of their general fund Governmental Services Tax would be reduced.



In 2015, the Legislature approved Senate Bill (SB) 119 and SB207. These bills legislatively extend expired rollover bond authority for school construction and renovation of schools for 10 years. Under prior law, voter approval would have been necessary to extend this bonding authority. For Clark County and Washoe County, these bills extend authority to issue bonds through 2025, using each district's respective debt tax rate. For other school districts, the legislation will extend bonding authority for 10 years once the original authority expires.

Table 4 shows the impact of SB119 and SB207 on the bonding authority for each school district (Column B). The table reveals that the legislation extended bonding authority for 11 school districts. However, several school districts (Esmeralda, Eureka, and Lander) did not previously have bonding authority and do not benefit from this legislation. In addition, two school districts (Lincoln and Mineral) had traditional bond authority that had previously expired and do not receive any additional bonding authority from SB119/SB207. Elko County, however, is unique. While it does not have bonding authority and was not affected by this legislation, it has as tax rate of \$0.75 per \$100 of assessed valuation that can be used for pay-as-you-go projects. In the late 1990s, Humboldt, White Pine, and Elko Counties levied pay-as-you-go taxes, which tend to be used by districts that face difficulty passing voter approved bond issues.<sup>32</sup>

The SB119/SB207 legislation reauthorized rollover bonds for affected school districts, allowing them to issue additional bonds or do pay-as-you-go projects within the existing tax rate. As shown in Table 4, Column C, the debt rate for each district varies substantially, ranging from \$0.10 in Douglas County to \$0.5867 in Lyon County.

**Table 4: Bonding Authority and Debt Capacity Analysis<sup>33</sup>**

A	B	C	D	E	F	G	H
District	Bonding Authority	Debt Tax Rate	Current Maximum Combined Tax Rate	Outstanding Debt (1)	2015-16 Debt Service Payment- GO Bonds	2015-16 Projected Revenue from Debt Tax Rate	Difference Between Tax Revenue and Debt Payment (G-F)
Carson City	Rollover expires 2030	0.4300	3.5200	49,790,000	5,389,663	5,413,938	24,275
Churchill	Rollover expires 2028	0.5500	3.6600	38,845,000	2,749,794	3,706,938	957,144
Clark	Rollover expires 2025	0.5534	3.4030	2,060,045,000	308,114,326	320,175,713	12,061,387
Douglas	Rollover expires 2028	0.1000	3.6600	40,925,000	2,820,089	2,594,432	-225,657
Elko	Pay as you go expires 2022		3.6600				0
Esmeralda	None		3.0195				0
Eureka	None		1.9896				0
Humboldt	Rollover expires 2028	0.1350	3.1716	2,395,000	221,581	1,329,578	1,107,997
Lander	None		3.6600			0	0
Lincoln	Traditional expired 2014	0.2231	3.6600	5,130,600	457,916	551,700	93,784
Lyon	Rollover expires 2026	0.5867	3.6600	66,670,000	6,613,542	7,100,030	486,488
Mineral	Traditional expired 2002	0.2800	3.6600	980,000	507,050	381,701	-125,349
Nye	Rollover expires 2026	0.5850	3.6600	81,180,000	8,609,421	6,698,758	-1,910,663
Pershing	Rollover expires 2028	0.4000	3.6592	6,572,071	427,801	902,221	474,420
Storey	Rollover expires 2032	0.1447	3.4607	8,660,300	698,748	713,915	15,167
Washoe	Rollover expires 2025	0.3885	3.6600	467,005,000	46,815,224	50,867,721	4,052,497
White Pine	Rollover expires 2028	0.2490	3.6600	8,600,000	815,080	722,077	-93,003
(1) Outstanding debt as of June 30, 2015 for all districts except Clark, which includes issuances made through November 2015							

## 2. Tax Cap

When a school district goes to the voters for approval of a bond, it must ensure that its proposed tax rate will not cause the highest overlapping tax rate in the county to exceed the statutory tax cap. Nevada has a constitutional ad valorem tax cap of \$5 per \$100 of assessed valuation (*Nevada Constitution* Article 10 Section 2) and a statutory tax cap of \$3.64 per \$100 (Nevada Revised Statutes [NRS] 361.453). There is also a statewide rate of \$0.02 per \$100 that is not subject to the \$3.64 tax cap (Chapter 445, *Statutes of Nevada* 2013), resulting in an actual maximum tax rate of \$3.66 per \$100.

Table 4 provides each school district's current debt rate and the highest overlapping tax rate in the county (Columns C and D). The difference between the maximum rate of \$3.66 and the highest overlapping tax rate is the maximum tax increase that a school district could request from the voters (e.g., Column D-\$3.66). This table shows that ten out of 17 school districts are already at the maximum tax rate.<sup>7</sup>

Traditionally, a county that has reached the maximum tax rate means that a district cannot ask voters to increase the property tax rate. However, in 2015, the Legislature approved SB411, which allows all school districts in Nevada, except for Clark County, to create a Public Schools Overcrowding and Repair Needs Committee. The Public Schools Overcrowding and Repair Needs Committee can recommend one or more statutory taxes for consideration by voters at the 2016 General Election to fund the capital projects of the school district. Where formed, the Public Schools Overcrowding and Repair Needs Committee is comprised of members of various community organizations, local elected officials, business and labor groups. The school districts have no voting representation on the committee. Two school districts (Douglas and Washoe) have formed this committee. The bill limits the taxes that can be proposed to room taxes, governmental services taxes, real property transfer taxes, sales and use taxes, and property taxes.

In January 2016, the Washoe County Public Schools Overcrowding and Repair Needs Committee decided to create a ballot question to fund school construction and repairs.<sup>34</sup> Early reports indicate that the Committee is seeking to generate \$781 million for WCSD by raising either sales or property taxes.<sup>35</sup> One key aspect of the bill is that it also exempts any property taxes proposed from the statutory tax cap of \$3.64 per \$100 in assessed valuation. This exemption is helpful to both Douglas and Washoe, since they both have maximum property tax rates of \$3.66 per \$100 in assessed valuation (Table 4, Column D).

## 3. Debt Capacity

A school district in Nevada must have the capacity to issue new debt. The approved ad valorem tax rate must be able to support any existing debt service for past bond issuances plus any new debt service for the current issuance. If the tax rate can only support existing debt service, the district must wait until either tax revenues increase or debt service becomes lower as it is paid off. Alternatively, school districts with rollover bond authorization approved after 2007 can fund pay-as-you-go projects with any revenue not needed for debt service or the required reserve account balance (NRS 350.020(7)).

The capacity to issue new debt by school districts in Nevada has been limited due to reductions in assessed valuation that occurred during the Great Recession. While Nevada's property values have risen in the last

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<sup>7</sup> The ten school districts that are at the maximum rate include: Churchill, Douglas, Elko, Lander, Lincoln, Lyon, Mineral, Nye, Washoe, and White Pine.

few years, property tax abatements approved by the Legislature in 2005 have significantly slowed revenue growth. For FY 2015, the maximum tax increase for residential property is 3 percent while the maximum tax increase for other property ranges from 3 percent to 8 percent, depending on the county.<sup>36</sup> Information on the current debt capacity of each school district is discussed below:

- Clark County School District: Based on the rollover bond authority provided by SB119/SB207, the Clark County School District estimates that it can issue \$3.3 billion in General Obligation bond revenue and \$745 million in revenues backed by the room tax and real property transfer tax over the next 10 years.<sup>37</sup> This provides total funding of \$4.1 billion. However, this is only about half of the projected need of \$8.3 billion (an amount which does not include deferred maintenance costs).<sup>38</sup> The district issued its first installment of debt in November 2015.<sup>39</sup>
- Washoe County School District: The Washoe County School District estimates that it has sufficient debt capacity to issue an average of \$35 million per year over the period 2016 through 2024.<sup>40</sup> The first issuance is being planned for 2016.<sup>41</sup> Given that the district's total assessment of new construction needed and significant renovations and repairs amounts to \$933 million (\$103.7 million per year over nine years), there is an annual shortfall of \$68.7 million per year.<sup>42</sup>
- Other School Districts: Full information is not available on the debt capacity for other school districts. However, Table 4 provides insight into the limitations faced by small school districts. The outstanding debt for each school district varies from \$980,000 in Mineral County to \$81 million in Nye County (Column E). The 2015-16 debt service payment is shown in Column F and can be compared to projected revenue from the debt tax rate (Column G). The difference between revenue and the debt service helps illustrate how difficult it is for many small school districts to issue any substantial additional debt given their current tax rate (Column H). For four districts (Douglas, Mineral, Nye and White Pine), the amount of debt service exceeds property tax revenue (Column H). In these districts, the difference is being paid by reserves in the debt fund, federal subsidies, or the governmental services tax.

#### 4. Debt Limit

Outstanding general obligation bonds are limited to 15 percent of assessed valuation for school districts (NRS 387.400). As Table 5 reveals, all of Nevada's school districts are well below the 15 percent limit (Column C). The district with the highest outstanding debt is Nye County at 6 percent of assessed valuation. Four school districts (Elko, Esmeralda, Eureka, and Lander) have no outstanding debt.

**Table 5: School District Debt Limit**

District	2014-15 Assessed Valuation	Outstanding General Obligation Bonds (1)	% of Assessed Valuation 2014-15
Carson City	1,286,890,682	49,790,000	3.9%
Churchill	701,513,275	38,845,000	5.5%
Clark	62,904,942,089	1,933,575,000	3.1%
Douglas	2,659,900,426	40,925,000	1.5%
Elko	1,838,648,027	0	0.0%
Esmeralda	80,030,559	0	0.0%
Eureka	1,226,192,011	0	0.0%
Humboldt	1,341,476,202	2,395,000	0.2%
Lander	1,202,751,794	0	0.0%
Lincoln	350,079,071	5,130,600	1.5%
Lyon	1,421,732,302	66,670,000	4.7%
Mineral	139,502,311	980,000	0.7%
Nye	1,344,708,603	81,180,000	6.0%
Pershing	283,724,599	6,572,071	2.3%
Storey	517,931,276	8,660,300	1.7%
Washoe	13,286,283,600	467,005,000	3.5%
White Pine	459,439,835	8,600,000	1.9%

(1) Outstanding debt as of June 30, 2015 for all districts except Clark, which includes issuances made through 11/2015  
Source: <http://tax.nv.gov/LocalGovt/PolicyPub/ArchiveFiles/Redbook/>

## Cost Drivers of School Construction

Given the limited resources available to Nevada school districts, it is important to review the cost drivers of school construction to determine whether State laws or local policies should be modified to achieve greater efficiencies. This section reviews six main factors that may impact the cost of school facilities: (a) instructional requirements; (b) site selection; (c) design costs; (d) delivery method; (e) labor costs; and (f) financing costs.

### A. Instructional and Management Systems Requirements

When a school district embarks on a school construction project, it must first consider the instructional requirements imposed by the State of Nevada and the district. These instructional requirements will likely have an impact on the size and configuration of the school, which will affect overall construction costs.

School districts in Nevada do not have control over State-imposed instructional requirements. For example, schools must be configured to accommodate sufficient classrooms to meet State-mandated maximum class sizes of 21:1 for kindergarten, 17:1 for grades 1 and 2, and 20:1 for grade 3. In addition, beginning in FY 2017, all schools in the State must have sufficient space to offer universal full-day kindergarten. School districts must also include additional space to accommodate special programs funded by the State, such as pre-kindergarten and reading centers for Zoom Schools. There must also be sufficient space for state-mandated computer-based testing. These instructional requirements have significant fiscal implications. In

Florida, after the state failed to secure sufficient funds to reduce the classroom size (which was projected to result in 7,000 additional classrooms), Florida had to loosen its ambitious targets.<sup>43</sup>

Each school district also has local instructional requirements that impact the cost of school construction. For example, each district determines how many students to house at each campus. A decision to have fewer, larger schools will be less expensive than having multiple, smaller schools.

Each school district also develops its own technology standards for the classroom. Individual school districts decide whether a school will house special magnet or Career Technical Education programs, which require more space than a traditional school. There are significant facility costs associated with building the technology infrastructure that supports the instructional programming. Among the technology infrastructure upgrades are wi-fi, networking capacity, and electrical systems, as well as the hardware (e.g., computer equipment and portable devices).

The Nevada Commission on Educational Technology (NRS 388.790), established in 1997, is responsible for “establish[ing] a plan for the use of educational technology in the public schools.”<sup>44</sup> This plan “must include recommendations for methods to [...] incorporate educational technology” in schools.<sup>45</sup> The Commission on Educational Technology is charged with “develop[ing] technical standards for educational technology and any electrical or structural appurtenances necessary thereto, including, without limitation, uniform specifications for computer hardware and wiring, to ensure that such technology is compatible, uniform and can be interconnected throughout the public schools of this State” (NRS 388.795).<sup>46</sup> To date, the Commission on Educational Technology has not yet not adopted technical standards, which could help inform (and even impact) each school district’s budgetary decisions around technology. The SAGE Commission could recommend that the Legislature request that those standards be developed before the 2017-2018 school year begins.

Moreover, the State must continue to bear the lion’s share of the (increasing) costs of educating our special education students (which totaled 9 percent of the school population in 2011-12).<sup>47</sup> As of 2011-2012, the average cost to educate a student in Nevada with special needs was \$19,593 per year.<sup>48</sup> The higher costs are associated with specialized teachers and special equipment. In recent years, local school districts have also had to consider whether to install more advanced safety and security features at the school site.

Additionally, one element of a modernized school facility includes the management systems that are needed to support the functions and activities of the school district and schools. The costs of these management systems are not insignificant. In short, instructional programming and management systems can increase the cost of building or modernizing/renovating school facilities.

## **B. Site Selection**

The location for each school site can also have an impact on total school construction costs. School districts must work with local jurisdictions and developers to find a suitable school site (NRS 278.346).<sup>49</sup> However, local governments do not consistently enforce the requirement that developers set aside land for future school sites. And, with few exceptions, school districts have had to pay market value for the land.

The amount of infrastructure the school district must build also varies. In most cases, the school district must shoulder the cost of connecting to water, sewer, electrical, gas, and water lines, which increases the overall construction costs. In addition, the land set aside by a developer for a school district may be located

on difficult terrain that was not suitable for homebuilding, thus requiring significant remediation. Building on a site with challenging geological issues can also increase costs when grading, retaining walls, and fencing is required.

The SAGE Commission could recommend that the Legislature help contain these costs by adopting policy guidance or legislation that addresses the following issues:

- Standardize the amount of land that must be set-aside by developers for elementary, middle, and high schools;
- Require that if the location of land set aside for a school must be moved, a new comparable site of the same size must be provided;
- Require that land be provided to school districts without charge by developers;
- Require developers to install the infrastructure at the school site prior to development of the site; and
- Explore development and construction methods and new construction technologies in order to reduce costs.

In addition, relevant parties in the jurisdiction (e.g., local government agencies, school district officials, developers, etc.) should consider establishing a formal policy whereby all parties meet and discuss site options (including school sites) as part of the negotiations process.

### C. Design Costs

Another major driver of school construction costs is design. School designs are completed by contracted architects for a set price that is typically established as a percentage of the estimated total construction cost.

#### 1. Nevada Design Costs

Comprehensive data on school design costs in Nevada is not currently available. However, to shed some light on the situation, we examine available data on the cost of design contracts awarded by the Clark County School District in 2015 to build eight new elementary schools (for a total design cost of \$12.5 million). As shown in Figure 4, the average design cost varies depending on whether a prototype design is used. The five elementary schools using a prototype design cost on average 63 percent of the cost of a new design. While this may not appear to be a substantial savings, each prototype design is adapted to the site and is revised or changed to accommodate more students than the original design. Historically, the Washoe County School District has also used prototype designs. Recently, however, they have considered using a set of standard components (or “kit of parts” type) design process that can be adapted to individual sites, thereby reducing site sizes and site development costs.

**Table 6: Clark County School District Design Costs 2015**

Item	Amount
Average Design Cost for Prototype Schools	\$ 1,386,908.05
Average Design Cost for Other Schools	\$ 2,188,264.50
Cost of Prototype as % of Regular Cost	63%

Source: Various Clark County School District Board documents, <http://www.boarddocs.com/nv/ccsdlv/Board.nsf>



School district officials have expressed some concern in increasing the role of the State in drafting design guidelines, particularly if those policy guidelines would require standardization across all districts. District officials want to maintain the local flexibility they currently enjoy to draft designs that reflect the local community and their preferences and weather conditions. The SAGE Commission could explore and assess whether there are benefits in having the State play a role in drafting design guidelines and providing technical assistance.

## 2. Design Cost Guidelines

Another factor that can affect overall design cost are guidelines. Currently, it is difficult to determine whether Nevada's design fees are reasonable because Nevada does not have guidelines in place for setting basic architecture and engineering fees. In contrast, a number of other states have developed design guidelines. A selection of these are discussed below:

- **Washington:** The Washington Office of Financial Management has developed guidelines for determining architecture and engineering fees for public works building projects.<sup>50</sup> The State has developed a schedule for the percentage of construction costs that can be charged for design based on the type of public work and the maximum allowable construction costs available to the contractor. For example, the maximum architecture and engineering fee allowable for an elementary school with \$25 million in construction costs is 6.99 percent of construction costs, or \$1.7 million. Washington also has a guideline stating that buildings based on prototypes should cost 40 percent of the original design cost. In Nevada, as stated above, a school building in Clark County using a prototype design cost on average 63 percent of the cost of a new design. Nevada may want to undertake a comparative analysis to establish guidelines around the cost of buildings based on prototypes.
- **Arizona:** The Arizona School Facilities Board has created Architectural Fee Guidelines.<sup>51</sup> Arizona's guidelines are based on the size and complexity of scope of the project. The guideline for a new elementary school with a construction cost of \$25 million is 5.5-6.0 percent of construction costs, or \$1.4-\$1.5 million.

## 3. Options for Controlling Design Costs

- a. Develop cost guidelines: Drawing on models developed in other states, the SAGE Commission could consider whether Nevada should develop cost guidelines for architecture/engineering fees for school facilities projects to standardize expectations and control costs.
- b. Create a state role in design: The SAGE Commission may want to recommend that the Legislature explore and consider the potential role the State Public Works Board could play in designing to develop a prototype elementary, middle and high school design that could be used by any school district statewide. This would help establish standards of what should be included in a modern school facility. These designs could be owned by the State instead of a private architect and could then be adapted to each site. Of course, any expansion of the State's role in preparing design guidelines should be undertaken in close collaboration with the school districts, and should take into account local preferences and

differences (e.g., weather/climate). In the case of small districts, it may be desirable for the State Public Works Board to adapt the design to the site.

- c. Commission independent operational audit: There are significant opportunities for value engineering in the construction of school facilities. Districts could utilize the value engineering process without compromising safety requirements and instructional needs. The SAGE Commission may want to recommend that the Legislature commission an independent operational audit to explore opportunities for value engineering in the construction of schools.

## **D. Delivery Method**

Nevada law currently authorizes schools to use one of three delivery methods for school construction: design-bid-build, construction manager at risk (CMAR), and design build. The impact on cost of each of these methods is discussed below.

### **1. Design-Bid-Build**

The traditional school construction delivery method used by school districts is design-bid-build (NRS 338.1377 to 338.139). This process applies to all public works projects in Nevada exceeding \$100,000 in construction costs. Once a school district advertises for the project, it must award the contract to the lowest “responsive and responsible bidder” (NRS 338.1385). A bid can be rejected if the bidder is not a qualified bidder, the bidder is not responsive or responsible, the quality of services does not conform to the approved plans and specifications, or if the public interest would be served by rejection of the bid.

The traditional bidding process of design-bid-build offers school districts the greatest degree of control in the design process since it is fully completed prior to going out to bid for the construction contract.<sup>52</sup> However, it could create an adversarial relationship between the architect and the contractor because there is no contractual agreement between the architect and contractor and there is no opportunity for collaboration in the design phase. This delivery method can also lead to a large number of change orders because the costs of the design were not fully understood at the time of bidding. Consequently, this can substantially increase the final cost of the project.

### **2. Construction Manager at Risk (CMAR)**

To address some of the challenges inherent in the traditional public works contracting process, the Legislature authorized school districts and other public bodies to use the Construction Manager at Risk (CMAR) delivery method in 2007 (NRS 338.165 et seq). Under this option, the CMAR guarantees completion of the project for a negotiated price and holds the risk of construction performance. With a CMAR, a school district enters into two separate contracts. The first contract is for preconstruction services and is awarded through a competitive process. These services include determining whether scheduling or constructability problems exist that would delay the construction of the project, estimating the cost of the labor and material for the project, and assisting the public body in determining whether the project can be constructed within the district’s budget (NRS 338.169). After the design is complete, a school district may enter into a second contract with the CMAR for construction of the project (NRS 338.1696). This contract is based on a guaranteed maximum price, fixed price, or fixed price plus reimbursement for certain costs. If the school

district is unable to reach an agreement with the CMAR, it can instead go out to bid through the traditional process. The CMAR must also use an open process to select qualified subcontractors.

This existing law faces several challenges. First, this option to use CMAR will expire on June 30, 2017 unless further Legislative action is taken to extend it (NRS 338.165 et seq). Second, the law limits small school districts with a population of less than 100,000 to two CMAR projects per year (NRS 338.169). School district representatives support new legislation that would extend the ability to use CMAR.

The CMAR delivery method has significant advantages, as well as a number of disadvantages. Overall, there is broad support for legislation that would extend the ability to use CMAR. The key advantages are as follows: (1) the CMAR establishes a cooperative relationship between the architect and the contractor early in the construction process; (2) it can limit the adversarial change order process, which can lead to lower costs and expedited construction; (3) it provides more certainty that the project will be completed within budget; (4) it helps streamline scheduling; and (5) with better information on costs and construction methods over time, it will give the districts more control over the design process.<sup>53</sup> There are, however, several disadvantages: (1) CMAR may not always result in cost savings compared to traditional contracting; (2) it may not be beneficial for smaller, less complicated projects; and (3) the contractor provides the district with professional advisory management assistance during design phase, but cannot continue this role during the construction phase, since the contractor is in an “at-risk” position during construction.<sup>54</sup>

Over the years, CMAR has become increasingly popular for many of Nevada’s school districts. CCSD began using the CMAR process for new construction projects in 2015. The Washoe County School District has successfully used this delivery method on 22 elementary school renovations and plans to use it for any new construction.<sup>55</sup> Additionally, small school districts such as Douglas County and White Pine County are also using CMAR to control costs, eliminate change orders, and control costly per diem and transportation costs.

Unfortunately, data is not yet available to evaluate whether this delivery method has actually produced cost savings in Nevada. WCSD reports that it has only had to increase the negotiated price in 2 out of 22 projects that have utilized CMAR. CCSD has decided to use its current elementary school construction projects to test whether CMAR reduces costs. Five of its elementary school projects have been bid using the CMAR process while the remaining three will be bid by using the traditional design-bid-build process.

### **3. Design-Build**

The third delivery method is design-build, which uses a single contracting team for the entire design and construction process (NRS 338.1711 et seq). This delivery method is only available, however, for projects that exceed \$5 million. Once a design-build team is selected through a competitive process, a school district enters into negotiations for a maximum price and project completion date. A school district using this method can also employ a project manager as a consultant to oversee the project.

Two schools in the Clark County School District were built using this delivery method: Miller School and Variety School. Both of these schools had unique designs because they serve special populations. School districts interviewed indicated that they do not have any future plans to use this delivery method.

The design-build delivery method provides simplicity for a school district and can often be accomplished more quickly than traditional delivery methods.<sup>56</sup> It can also result in cost efficiencies since the designer and contractor are working together throughout the entire process. However, it provides significantly less

control for the school district. And school districts must also be able to promptly respond to issues in order to realize the potential efficiency benefits on this delivery method.

#### **4. Need for a Project Manager**

Under each of these delivery methods, it could be advantageous for school districts to have a project manager that reports directly to the school district to ensure that the district's interests are being represented at all times.<sup>57</sup> Both Clark County School District and Washoe County School District have permanent in-house project managers. It is more difficult, however, for small districts to employ project managers. One small district interviewed stated that it did not have sufficient funds to hire a project manager. Another small district indicated that it has shared a project manager with another local government entity.

To address the challenges of smaller districts, the SAGE Commission could explore whether there might be benefits to having the State provide technical assistance to small school districts with design and project management. As an example, the State Board of Public Works currently provides design and project management services for capital projects at and across all state agencies and the Nevada System of Higher Education. The SAGE Commission could recommend that the Legislature explore whether the State Board of Public Works could expand its existing role to provide this service to small school districts. This would ensure that all school districts could have access to professional project management services without having to dedicate limited resources to maintaining this expertise in-house.

#### **5. Contracting for Economies of Scale**

Regardless of which delivery method is chosen, school districts should also look for opportunities to achieve economies of scale by grouping similar projects together to obtain a better contract price. For example, if a district needs to replace boilers or HVAC systems at several sites, it could roll these together into a single bid. Admittedly, the circumstances of each project will determine whether cost savings could be achieved by combining projects. For example, the timing of projects may not align. Also, contractors may have limited capacity to do a large number of projects at one time. Expanding the number of prequalified general and specialty contractors could also increase competition and result in lower prices for school districts.

#### **E. Labor Costs**

An additional key driver of school construction costs is the cost of labor, which is influenced by a combination of market conditions as well as State laws setting minimum wage standards for public works projects. Because these two factors are closely intertwined, efforts to change State laws may not always have the desired effect.

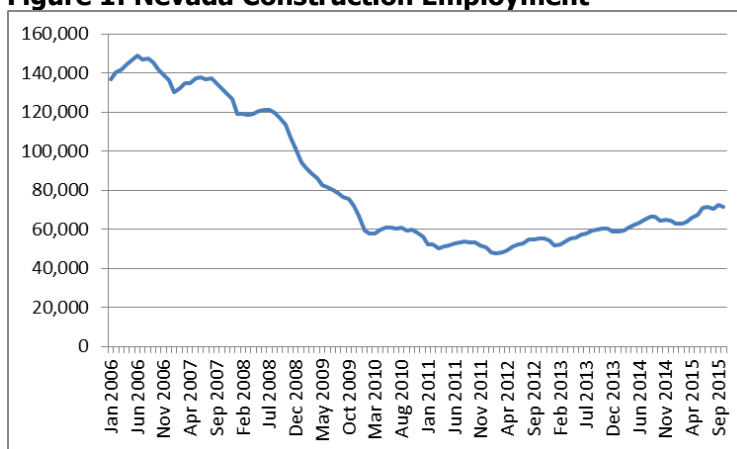
##### **1. Market Conditions**

Labor costs are largely driven by market conditions. As discussed below, the supply of construction workers decreased following the Great Recession and has not fully recovered. In the meantime, the economy has improved and demand for new construction from government agencies and private entities has increased. As a result, wages have begun to rise, which will likely impact school construction projects in Nevada.

Nevada's construction industry was particularly hard hit by the Great Recession and has not fully recovered. Figure 1 shows the stark magnitude of construction job losses in Nevada. There were 148,800 construction employees in Nevada at the peak in June 2006. Construction employment fell by 101,200 to a low of 47,600 in February 2012. Since that time, there has been some recovery of construction jobs. As of October 2015, construction employment was 71,500, which is still far from the peak.

Construction labor is also not distributed throughout the state and some (rural) districts have reported that it can be difficult to get bidders due to lack of qualified labor. In some cases, school districts must use out-of-state contractors from Utah or California. These contractors come at a higher cost because the school district must pay per diem and transportation costs.

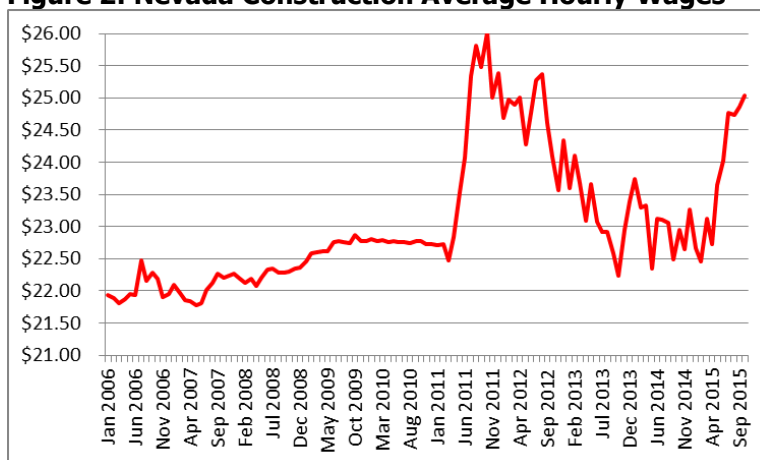
**Figure 1: Nevada Construction Employment**



Source: Nevada Department of Employment and Rehabilitation: Current Employment Statistics

Figure 2 illustrates how construction wages have changed over time. The average hourly wage was \$26.01 in October 2011, which was a time of limited labor supply. As the supply of workers increased, wages were driven down in 2013-2014. However, in 2015 a trend towards increasing wages has emerged, with an average wage of \$25.04 (as of October 2015). School districts and contractors indicate they are projecting that increasing wages will likely continue to drive up costs of school construction in the near future.

**Figure 2: Nevada Construction Average Hourly Wages**



Source: Nevada Department of Employment and Rehabilitation: Current Employment Statistics

## 2. Prevailing Wage

During the 78<sup>th</sup> Legislative Session (2015), the Legislature initially approved SB119, which exempted K-12 capital projects from prevailing wage requirements. However, on the last day of the session, the Legislature approved AB172, which instead sets the prevailing wage for school districts at 90 percent of the prevailing wage on other public works projects. In contrast, Nevada charter schools are exempt from prevailing wage requirements. AB172 also increased the prevailing wage threshold for all public works projects from \$100,000 to \$250,000. The impact of this policy change has not been formally analyzed.

While critics of prevailing wage argue that the policy drives up construction costs, the evidence is mixed and inconclusive.<sup>58</sup> For example, an early study found significant cost increases due to prevailing wage laws (Fraundorf et al. 1984).<sup>59</sup> However, a more recent study replicating the earlier study found little to no effect (Azari-Rad et al. 2003).<sup>60</sup> Other studies also found no significant increase in school construction costs associated with prevailing wage laws among Mid-Atlantic states (Prus 1999) and Midwestern states (Philips 2001).<sup>61</sup> A recent study concluded that worker productivity was significantly higher in prevailing wage states than in non-prevailing wage states.<sup>62</sup>

### F. Financing Costs

Since most school facilities are financed using General Obligation Bonds, it is important to examine financing costs and to explore whether school districts could achieve any savings. Overall, we found that Nevada's laws incorporate many best practices recommended by the Government Finance Officers Association (GFOA).<sup>63</sup> School districts in Nevada are required to submit an annual Debt Management Policy that incorporates these practices (NRS 350.013).

In this section, we consider the costs of the most recent public bond issuance for each Nevada school district. To provide comparative data, we also examined comparable issues in other states. For small school districts, we reviewed issuances in the Intermountain West, which includes Arizona, California, and New Mexico. For large districts, we examined recent issuances by the Los Angeles Unified School District and Miami-Dade County Public Schools.

Table 7 reveals that small districts typically issue much smaller principal amounts than large school districts (Column B). The premium on bonds is substantially higher for large districts (Column C) while issuance and underwriting costs are much higher for small school districts (Columns D and E). The amount of debt service paid as a percentage of the principal was lower in Nevada than in other comparison districts, illustrating that the financing structures used in Nevada (e.g., payback time, interest rates) resulted in lower overall costs to taxpayers than in comparison districts (Column F). A more detailed discussion of each of these follows below.



**Table 7: Debt Financing Costs Comparison**

A	B	C	D	E	F
District	Average Principal	Average Premium as % of Principal	Average Issuance Cost as % of Total Issuance	Average Underwriter Cost as % of Total Issuance	Average Debt Service Paid as % of Principal
Clark	231,242,500	13.50%	0.13%	0.26%	135.29%
Washoe	45,375,000	16.17%	0.39%	0.57%	146.54%
All Other Nevada School Districts	5,274,583	2.77%	2.22%	0.82%	141.16%
Comparable Small Districts in Intermountain West	4,735,625	6.22%	1.72%	0.74%	149.86%
Comparable Large Districts	259,382,500	11.89%	0.16%	0.36%	154.81%

Source: County information, Electronic Municipal Market Access (EMMA) <http://emma.msrb.org/>

## 1. Interest Rate

The most significant cost of borrowing is the amount of interest that will need to be paid. For each issuance, there are multiple bonds sold at varying issuance rates that mature at different times. One of the most significant factors influencing the interest rate is a school district's bond rating. To help enhance their bond ratings, school districts can use the State Permanent School Fund as a guarantee (NRS 387.513 et seq.).

The State Permanent School Fund was established by the Nevada Legislature in the late 1800s (*Nevada Constitution*, Article 11, Section 3), which requires that the Fund's monies "are hereby pledged for educational purposes and the money therefrom must not be transferred to other funds for other uses."<sup>64</sup> The Permanent School Fund is funded through the collection of fines, as well as land and property given to the State for educational purposes.<sup>65</sup> The interest earnings of Nevada's Permanent School Fund are placed in the State Distributive School Account, which is distributed among Nevada school districts and charter schools. As of December 31, 2014, the Permanent School Fund was valued at \$331 million; however \$328 million of the total amount is the principal, which "cannot be spent" and "must remain in the fund in perpetuity under the State Constitution."<sup>66</sup> In FY 2014 and FY 2015, \$1 million in Permanent School Fund interest was transferred to the Distributive State Account.<sup>67</sup>

A school district can have a maximum of \$40 million in guaranteed bonds outstanding at one time. This cap on this was last increased in 2007 (Statutes of Nevada 2007, Chapter 291). A total of 11 school districts currently use this guarantee.<sup>68</sup> A few school districts (Carson City, Douglas, Lyon, and Nye) are close to the cap. Since the cap has not been reviewed for nearly 10 years, the SAGE Commission could recommend that the Legislature review the value and/or need of the Permanent School Fund to determine whether the cap can or should be increased in statute.

## 2. Impact of Premium on Interest Rate

Bonds are often sold at a premium, which means that they are sold at an interest rate that is higher than the market rate. In return, the school district receives additional bond proceeds. As shown in Table 7, the premium at large districts is substantially higher than at small districts. This is due largely to the fact that larger districts issue larger bonds, which tend to have premiums. Also, premium amounts are a function of overall market conditions; during an economic downturn, bond premiums have been lower. Some entities have criticized issuing bonds at premium because it results in a higher interest rate.<sup>69</sup> However, school district financing in Nevada is typically sized to take into account the premium so there is no additional cost

to tax payers. For example, if a district wants to receive \$50 million in net proceeds and the sale includes \$5 million in premium, the principal will be reduced to \$45 million so that district will still receive \$50 million. The payment under this scenario ends up being almost identical to a scenario of issuing \$50 million at a lower interest rate with no premium.

### **3. Impact of Negotiated versus Competitive Sale**

Bonds can be sold by competitive sale, negotiated sale, or private placement. The NRS generally requires school district bonds to be issued at competitive sale because it usually results in the lowest True Interest Cost (TIC) (NRS 350.155 to 350.195). This practice is in line with GFOA guidelines. There are certain circumstances when districts can issue bonds using a negotiated sale or private placement. A review of Nevada bond sales reveals that nearly all bonds have been sold through a competitive sale. In recent years, however, a few bonds with unique structures have been sold using a negotiated sale, such as Build America Bonds and Qualified School Construction Bonds authorized under the Federal American Recovery and Reinvestment Act (ARRA).

### **4. Length of Payback**

A review of Nevada school district bond issuances shows that new bond issuances are typically 20 years, even though the maximum payback time under Nevada law is 30 years (NRS 350.630). A shorter payback time would reduce interest costs. But it would also increase annual debt service since there is a shorter payback period. Financial experts emphasize that *annual* debt service is a more important consideration when considering affordability than total debt service.

### **5. Issuance Costs and Underwriter Costs**

Issuance costs are part of every financing transaction and include the financial adviser, bond counsel, rating agencies, and underwriter. There are certain fixed costs (e.g., legal/consulting fees, etc.) involved with a bond issue of any size. These fixed costs will equate to a larger percentage of overall costs in a small bond issue than they would in a large bond issue. As previously noted, issuance costs are a higher percentage of the total issuance for small school districts than for large districts (Table 7, Columns D and E).

This is true for both districts in Nevada and comparable small districts. One option to reduce issuance costs for small school districts might be to combine several issuances of different school districts together. This option is widely used in California for Temporary Revenue Anticipation Notes (TRANS), which are short-term bonds issued for cash-flow purposes. In this case, all school districts need funding at the same time and the credit-worthiness of the districts is similar because the source of the payback is state revenue that will be received at the same time by all of the districts. In Nevada, a pooled transaction would be more challenging because districts do not need funds at the same time and it would be difficult to coordinate board and staff actions between several districts. In addition, a district with a higher bond rating would be disadvantaged by operating in the same pool as a district with a lower bond rating.

### **6. Bond Refunding Savings**

School districts can refinance debt at a lower interest rate using a bond refunding. In Nevada, school districts typically consider whether to do a bond refunding if the present value savings are at least 3 percent of the par amount of the bonds. The Government Finance Officers Association (GFOA) recommends that

districts include their criteria for bond refunding in the Debt Management Policy. (NRS 350.013 requires a Debt Management Policy Statement to be submitted by August 1 of each year to the Nevada Department of Taxation and the county's Debt Management Commission; for links to examples of the debt management policies of Clark County School District and Elko County School District's Debt Management, please see Endnotes section).<sup>70</sup>

## Charter School Facilities

### Background

Nevada's charter schools are state-funded public schools of choice operated by independent entities with their own governing boards. Like other public schools, basic education services are provided free of charge. Charter schools operate under a model of accountability in exchange for some flexibility. They are held to the same academic standards as traditional public schools, but have more flexibility and control over curriculum, staffing, budget, and operations. As of FY 2015, Nevada's charter schools served 28,432 students, which is 6.2 percent of Nevada's total public school enrollment.<sup>71</sup>

All charter schools in Nevada must be approved by an authorizer. The authorizer plays a crucial role in ensuring quality by evaluating and approving charter schools, monitoring performance, and determining whether to renew or revoke/terminate the charter. To create a new charter school, interested parties must create a committee to form a charter school and must submit an application to an authorizer.<sup>72</sup>

Three entities are eligible to authorize regular charter schools: the State Public Charter School Authority (SPCSA); school districts; and a college or university within in the Nevada System of Higher Education. There are currently 39 charter schools: 23 authorized by SPCSA, 16 authorized by school districts and zero authorized by colleges or universities. While the SPCSA is actively authorizing new schools, a school district has not authorized a new charter school since 2007. The SPCSA can authorize schools anywhere in the State while school districts can only authorize schools within their boundaries or online schools.<sup>73</sup>

### Sources of Funding

Charter schools have historically received less State and Federal categorical funds than school districts. While charter schools are eligible to receive funding from most state categorical programs, they are not eligible for Class Size Reduction fund, the largest categorical program. Charter schools can also receive Federal categorical funds such as Title I, but per pupil funding is lower than for school district Charter schools lack access to facilities funds (generated by property taxes) received by school districts. The average capital revenue sources in FY 2015 was \$1,288 per pupil (Table 3, Column J). Charter schools, however, do not have access to any of these funds. Consequently, charter schools must use their operations funding to meet these needs. The lack of access to facilities funds leads to significant funding disparities between school districts and charter schools. The largest funding source available to school districts for capital needs is ad valorem taxes (Table 3, Column E), which are used to repay bonds.

In lieu of direct funding for facilities, charter schools have access to the State sponsored Account for Charter Schools, a revolving loan fund (NRS 386.576). Loan funds accessed by charter schools must be repaid with regular operational funds provided by the State Distributive School Account.

Unlike school districts, charter schools do not have additional funding sources (e.g., governmental services tax, sales tax) to repay this debt. The Account for Charter Schools revolving loan fund was funded for the first time in 2013 with a one-time State appropriation of \$750,000. This funding must be used to make loans at or below market rate to charter schools for costs incurred in preparing a charter school to commence its first year of operations or to improve a charter school that has been in operation (NRS 386.577).<sup>8</sup> The maximum loan amount is the lesser of \$500 per pupil or \$200,000 (NRS 386.577). Repayment must be completed in three years out of State funding provided through the Distributive School Account (NAC 386.445). Many charter school officials expressed concern that the maximum loan amount of \$200,000 is not sufficient to address its facility needs.<sup>74</sup>

In 2014, which was the first year of the program, two charter schools received revolving loans: (1) Oasis Academy borrowed \$96,639.71, which has been fully repaid; and (2) Founders Academy received a loan of \$175,000 to open a new charter school, with repayment beginning August 2015. Due to a projected State General Fund shortfall, \$400,000 (of the original \$750,000 appropriation) is being swept to the General Fund reserve, leaving a limited amount available for new loans in 2016. Another challenge of this program is that State funding is provided on a reimbursement basis, which means that the charter school must obtain an initial source of funding from sources such as credit cards, personal loans, or a high interest commercial loan.<sup>75</sup>

As part of legislation approved in 2013, the Department of Business and Industry can also issue tax-exempt lease revenue bonds to be repaid by a charter school (NRS 386.612 et seq.). To qualify, the school must have received four or five stars under Nevada's school performance framework over the last three years (NRS 386.632). One school is currently going through the process to utilize this provision.<sup>76</sup>

Because charter schools do not receive facilities funding, most charter schools use operational funds for facilities costs. The percentage of operational funds used for facilities costs is 12 percent for site-based charter schools and 2 percent for virtual charter schools. While virtual charter schools may spend less on traditional facilities costs, they have other infrastructure costs not included in the 2 percent figure, including rental space for administration of exams, staff travel to provide special education and other intervention services offsite, and subsidized internet connections for low-income students.<sup>77</sup>

A few charters have accessed other financing options to meet their facility needs: (1) two charter schools purchased buildings through conventional financing; (2) an associate of one charter accessed the tax exempt bond market to purchase a facility and lease it back to the charter school; and (3) there have been limited examples of an investor group constructing or purchasing a facility and leasing it back to the charter school. These private financing options can be costly because they often involve a private, third party management organization.<sup>78</sup>

The lack of facilities funds has repercussions in other areas. As previously indicated, insufficient funding for school cafeterias can lead to undercounting of Free and Reduced Lunch (FRL) students and can limit

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<sup>8</sup> A similar model is California's Charter School Facilities Program (CSFP), established in 2002, which provides revenue for the construction or rehabilitation of charter school facilities. The CSFP provides half of what the charter school needs and requires that the school seek a match. CSFP also offers low interest loans. CSFP was initially funded with revenue from a state, voter-approved general obligation bond issue. Since 2002, the program has been funded with \$900 million earmarked for charter school facilities.

eligibility for State and Federal funding targeted at those students. Lack of a school lunch program can also discourage low-income students from attending charter schools.<sup>79</sup>

During the 78<sup>th</sup> Legislative Session, the Nevada State Legislature provided additional financing options to charter schools through the passage of SB491 (Harbor Master Fund). SB 491 establishes a fund (\$10 million dollars, half of which the State funds) to recruit high quality national charter management organizations to Nevada and help develop local human capital. Harbor Master Funds can be used to augment basic per pupil guarantee requirements for no more than two years and to provide access to construction capital or facilities. However, these funds would not be available to existing charter schools for leasing costs or bond repayment, which are the primary recurring facilities costs for charter schools. This new program creates disparities in funding among established versus new charters, an inequity that needs to be avoided.

A long-term solution would provide charter schools with a proportionate share of school facilities revenue. Access to public money could also help reduce costs paid to private management organizations. Since the primary capital funding source is bond proceeds from ad valorem and other taxes, the State could require school districts to set aside a proportionate share of any new bond proceeds for charter schools located within the district, regardless of whether the school is sponsored by the district.<sup>80</sup> The SAGE Commission could suggest that the Legislature consider requiring school districts to set aside a proportionate share of any new bond proceeds for charter schools located within the district.

However, the financial impact of this financing option on school districts should also be considered. All existing facilities funding comes from local sources and has not been adequate to meet school district capital needs. Moreover, in small districts, the reallocation of local funds from school districts to charter schools disproportionately impacts these school districts who have fewer resources and fixed capital costs. In lieu of reallocating local funds from school districts to charter schools, another option would be to provide a commensurate amount of State funding. There could be a uniform statewide funding rate or the rate could vary depending on the amount of facilities funding generated by each school district.

Since the primary facilities cost for many charter schools is lease costs, any future facility program should make lease costs an allowable use of funds. To address the issues caused by the lack of cafeteria facilities, the new facilities funding mechanism could incentivize building cafeteria facilities by providing additional funding for this purpose. Implementing a school lunch program would make charter schools more accessible to low-income families.

Additionally, the State could use state-sponsored facility funds (as well as other funds like Classroom Size Reduction) as an incentive which could be directed to those charter schools who are working with under-resourced children or located in low income neighborhoods. As of 2014, charter schools were serving a smaller percentage of special populations than the statewide average (public schools: Free and Reduced Lunch 53 percent, English Language Learners 15 percent, Special education students 11 percent; charter school average: Free and Reduced Lunch 35 percent, English Language Learners 5 percent, Special education students 8 percent.<sup>81</sup>

## Recommendations

### 1. Consider whether the State should expand its role in the issue of the construction and maintenance of school facilities

Given the growing disparities across the state in population, assessed property values, and the capacity for raising tax revenues, the SAGE Commission should consider whether Nevada ought to expand its role in the area of school facilities financing and maintenance. Specifically, the SAGE Commission should consider whether greater State involvement is warranted in the areas of financing, technical assistance, and the development of criteria and guidelines in the construction, maintenance, and safety of school facilities.

### 2. Consider having the State establish uniform criteria for assessing the condition of facilities and prioritizing facilities needs

Currently, there are no uniform criteria across the state for determining needs or repair/replacement costs for school facilities. This makes it difficult, if not impossible, to quantify the dollar amount of the deferred maintenance backlog. Washoe County School District has developed a public website that lists and prioritizes the district's facilities maintenance and operations needs and updates regularly.<sup>82</sup> Both Washoe County and Clark County School Districts use the Facility Condition Index (FCI), an industry-standard index that measures the relative condition of a facility by considering the costs of deferred maintenance and repairs as well as the value of the facility. The SAGE Commission should explore whether there might be a benefit to having the State coordinate with the districts and develop uniform criteria for what good repair, life cycles, and prioritization of needs means, and build on existing criteria where possible. The SAGE Commission should consider also asking the Legislature to conduct a statewide assessment using the same criteria across all districts. As is done in many other states, Nevada should maintain a statewide database of the condition of school facilities and equipment.

Additionally, should the State decide to replenish the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335) or even establish a new statewide funding vehicle, decision makers would need a framework, and a centralized database with standard and comparable information across districts, by which to prioritize building and maintenance/repair needs across the State. The statewide assessment and database will help inform decisions about how and where to prioritize investments.

### 3. Identify new sources of revenues to support the construction and/or maintenance of school facilities

Currently, Nevada remains one of a dozen or more states that does not have a State-sponsored school facility funding source. West Virginia is but one example of a state that has successfully established a state-sponsored fund to support the construction and maintenance of school facilities. In 1989, the West Virginia Legislature established the School Building Authority, which seeks to "facilitate and provide state funds for the construction and maintenance of school facilities" and "to meet the educational needs of the people of the state in an efficient and economical manner."<sup>83</sup> Over the past two decades, West Virginia's School Building Authority has provided over \$3.2 billion in funding for construction projects across all 55 counties in the State. The School Building Authority is funded with a portion of the general state revenue



and lottery funds. Construction funds are derived from general revenue and the sale of capital improvement bonds.

In 2000, the Nevada Planning Commission for New Construction and Repair of Schools discussed the issues that the newly formed SAGE Commission is currently exploring. Among the recommendations offered by the Commission (and proposed during the 2001 71<sup>st</sup> Legislative Session) were: (1) establish a revolving loan fund to help school districts with maintenance/repair needs; (2) allocate money in the State's General Fund for state school aid to address school construction and/or significant maintenance and repair costs.<sup>84</sup> The SAGE Commission should consider recommending that the Legislature explore resourcing the Fund to Assist School Districts in Financing Capital Improvements (NRS 387.3335) or establishing a new statewide funding vehicle. The SAGE Commission should revisit previous legislative proposals and consider whether the current needs of the State warrant a new discussion of these options. The SAGE Commission may want to consider suggesting the Legislature establish a matching grant program, thus requiring school districts and local governments to assume a share of the responsibility in raising revenues to support the construction and/or maintenance of school facilities.<sup>9,85</sup>

Second, the SAGE Commission should consider recommending that the Legislature require school districts to set aside funds for deferred maintenance and other major maintenance items. As an example, Ohio requires school districts to set aside an amount equal to 3 percent of formula funding or 3 percent of prior year base revenue for acquisition, replacement, enhancement and maintenance or repair of permanent improvements. Many districts are currently using a portion of their General Funds to fund maintenance needs. Districts in Nevada could be required to set aside a specific percentage of General Funds and/or bond funds in the Fund for Extraordinary Maintenance. Should districts be required to set aside funds for deferred maintenance, *the State would have to ensure that districts have adequate funding to meet both facilities needs and operational and instructional expenses.* Alternatively, the program could be established as an incentive whereby the State would match up to a certain amount of local funds.

Third, there are number of reforms to existing tax policies that the State should consider as a way of increasing the potential revenues available to school districts, particular small school districts. For example, the residential construction tax is available to jurisdictions with a population of less than 55,000. *The SAGE Commission should consider recommending that the Legislature increase the population threshold of the residential construction tax to 100,000 so that school districts do not lose access to this source of tax revenue should their population exceed 55,000.* This single policy reform would enable Carson City and Elko County to access residential construction tax funds. On several occasions, the Legislature has increased population limits on similar tax measures following the national census.

As discussed previously, voters can authorize either general obligation bonds or pay-as-you-go taxes. Districts that have general obligation bonds also gain access to a portion of the Governmental Services Tax,

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<sup>9</sup> In 1999, the Legislature established the State Planning Commission for the New Construction, Design, Maintenance and Repair of School Facilities. During the 71<sup>st</sup> Legislative Session (2001), the Commission proposed two bills, which did not pass. The first (AB 272) proposed revising provisions governing calculations of guaranteed basic support of school districts to provide money for maintenance and repair of school buildings. The second (AB 300) propose the creation of a revolving fund for construction and repair of buildings and facilities and authorized issuance of general obligation bonds under certain circumstances.

which may be used for capital projects. Since not all school districts have been successful in getting voter approval for issuing bonds, *the SAGE Commission could recommend that the Legislature make the Governmental Services Tax available to all school districts for capital purposes, regardless of whether they have general obligation bonds.*

In 2013, the Legislature adopted a provision to allow ad valorem taxes to be increased without voter approval. This statute allowed the Washoe County Commission to levy an ad valorem tax of 5 cents of every \$100 of assessed value for school district capital projects (NRS 387.3288). However, a two-thirds vote was required for approval. *The SAGE Commission could recommend the Legislature revisit this measure and extend the deadline for action.*

As mentioned earlier, the Permanent School Fund was established by the Nevada Legislature in the late 1800s. The interest earnings of Nevada's Permanent School Fund are placed in the State Distributive School Account (DSA), which is distributed among Nevada school districts and charter schools. In FY 2014 and 2015, \$1 million in interest was placed in DSA.<sup>86</sup> While constitutional restrictions limit the ability of the Permanent School Fund to provide significant funds for school facility construction and maintenance, it does suggest historical precedence in establishing a state-sponsored funding vehicle that can assist school districts.

A number of states, including California and Texas, have rainy day funds or stabilization funds – accounts funded during economic growth and drawn upon in a financial emergency – that are used to fund education. For example, California's Public School System Stabilization Account (PSSSA) provides funds when state support for K-14 education exceeds the allocation of general fund revenues.<sup>87</sup> Nevada has a Rainy Day Account (NRS 353.288 1.(a)). Per legislation, a certain percentage of the unrestricted balance of the State General Fund is transferred to the Rainy Day Account each year, so an annual deposit is required. NRS 353.288 1.(b) required that 1 percent of anticipated revenue be deposited in the Rainy Day Account beginning in 2015.<sup>10</sup> Currently, none of the funds in Nevada's Rainy Day Account are earmarked for K-12 operations or facilities. The SAGE Commission could consider recommending that the Legislature earmark a portion of the State's Rainy Day Account for K-12 school facilities construction and maintenance.

The SAGE Commission could recommend that the Legislature require jurisdictions to collect impact fees to be paid directly to school districts when new development occurs and will impact school districts. Several states require that impact fees are paid to local governments and/or school districts to help pay for construction of new schools. Currently, cities and counties in Nevada operate under a 1989 state law that authorizes them to collect impact fees from developers. However, this law does not allow jurisdictions to collect impact fees for libraries, municipal buildings, parks, or schools. In 2006, the Clark County Commission commissioned a study and explored the issue of imposing impact fees to fund new school

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<sup>10</sup> AB 165, which required that 1 percent of anticipated revenue be deposited in the Rainy Day account, was supposed to take effect July 1, 2011 but was delayed twice due to the Great Recession. In 2013, the Legislature approved the transfer of \$84.7 million from the Rainy Day Account to the General Fund (A.B. 507) in FY 2014, leaving a zero balance. As of the start of the 2015 Legislative session, there was a balance of \$28,061,106 in the Rainy Day Account.

construction. Nevada state law indicates that school districts can seek reimbursement from local jurisdictions for costs incurred (NRS 278B.240) when they are asked to construct “off-site facilities”,<sup>11</sup> but there is no indication that school districts have ever exercised this option. Recently, the Reno City Council has discussed the issue of imposing impact fees for school construction, recognizing that projected new developments will significantly impact the capacity at existing school facilities.<sup>12</sup>

Admittedly, impact fees will only help those school districts and neighborhoods experiencing growth so there are issues of demographic equity to consider. Growth related impact fees will not help the urban core in Las Vegas, Reno or the rural districts. This underscores the need for the SAGE Commission to consider a broad portfolio of options that could be made available to help school districts deal with their various facilities needs. Among these are: (a) Current maintenance needs (e.g., repairs, renovations); (b) Deferred maintenance needs; (c) Current shortage of facilities; and (d) Projected needs based on expected growth.

Similarly, school facilities planning should be an integral part of the development incentive approval process. Under current law, the Governor’s Office of Economic Development (GOED) has the authority to approve abatements of sales, business, and property taxes for new and expanding businesses for 10 to 20 years (NRS Chapter 360). Since property taxes are the principal source of funds for school facility needs, these abatements can have a substantial impact on the ability of school districts to respond to student population growth that can result from new and expanding businesses. For example, the Tesla Motors project approved in September 2014 will bring an estimated 6,500 employees to Storey County, which could have a significant impact on school enrollment in the surrounding school districts. The SAGE Commission could consider recommending that the Legislature require GOED should consider a formal assessment of school capital needs prior to the approval of development incentives. Working with the impacted school districts, GOED should conduct a school facilities impact study and develop a funding plan that either uses an existing funding mechanism or proposes a new funding mechanism to address future facility needs.

Finally, the SAGE Commission could recommend that the Legislature require each school district to submit a long term capital strategic plan and update it prior to each Legislative Session. As part of the strategic planning process, school district officials should collaborate with the State and financial experts to explore different funding options and develop the long term school facilities capital strategic plan.

#### **4. Consider the Impact of Instructional Requirements and Management Systems on Facilities Needs**

When a school district prepares to construct a new school, it must first consider the instructional requirements imposed by the State of Nevada and the school district. These instructional requirements will

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<sup>11</sup> NRS 278B.240 reads: “If a school district is required by a local government to construct or dedicate, or both, a portion of the off-site facilities for which impact fees are imposed, the local government shall, upon the request of the school district, reimburse or enter into an agreement to reimburse the school district for the cost of the off-site facilities constructed or dedicated, or both, minus the cost of the off-site facilities immediately adjacent to or providing connection to the school development which would be required by local ordinance in the absence of an ordinance authorizing impact fees.”

<sup>12</sup> One developer in Nevada offered to contribute \$200,000 to offset the impact of the new development on existing school facilities. This figure amounted to \$200 per student, which is significantly lower than the \$17,000 (on average) that it costs to seat a child in a new school.

likely have an impact on the size and configuration of the school, which will affect overall construction costs. School districts in Nevada do not have control over State-imposed instructional requirements. For example, schools must be configured to accommodate sufficient classrooms to meet State-mandated maximum class sizes of 21:1 for kindergarten, 17:1 for grades 1 and 2, and 20:1 for grade 3. School districts should identify and quantify the impact of new programs on school facilities. When launching new educational (instructional) programs or requirements (e.g., Zoom Schools, Victory Schools, etc.), the SAGE Commission should recommend that the Legislature require the Nevada Department of Education to assess and quantify the impact of the programs on school facilities issues and management systems, and identify facility funds to accommodate the impact of the instructional requirements.

Additionally, the Nevada Commission on Educational Technology (NRS 388.790), established in 1997, is responsible for establishing a plan for the use of educational technology in public schools. This plan must include recommendations for methods to incorporate educational technology into the classroom. The Commission on Educational Technology is charged with developing technical standards for educational technology and any electrical or structural support or infrastructure required to use the educational technology. At the time of publication of this report, the Commission on Educational Technology had not yet published its guidelines. The SAGE Commission should ask the Nevada Commission on Educational Technology to proceed with establishing and adopting standards for the application of technology in public school facilities in the State.

Moreover, the State must continue to bear the lion's share of the increasing costs of educating our special education students (which represented 9 percent of the school population in 2011-12).<sup>88</sup> As of 2011-2012, the average cost to educate a student in Nevada with special needs was \$19,593 per year.<sup>89</sup> The higher costs are associated with specialized teachers and special equipment. In recent years, local school districts have also had to consider installing more advanced safety and security features at the school site.

Additionally, one element of a modernized school facility includes the management systems that are needed to support the functions and activities of the district and school site. The costs of these essential management systems are not insignificant and vary depending on the size of the district. These instructional programming requirements, technology standards, and management systems can increase the cost of building or modernizing/renovating school facilities.

## **5. Improve efforts to secure land for school sites**

The location for each school site can also have an impact on total school construction costs. School districts must work with local jurisdictions and developers to find a suitable school site (NRS 278.346). However, local governments do not consistently enforce the requirement that developers set aside land for future school sites. And, with a few exceptions, school districts have to pay the full value the land (rather than receiving it at a discount). In addition, the amount of infrastructure the school district must build also varies. In most cases, the school district must shoulder the cost of connecting to water, sewer, electrical, gas, and water lines, which increases the overall construction costs.

The SAGE Commission could recommend that the Legislature help contain the costs of identifying and selecting a site for new schools by adopting guidance or legislation that addresses the following issues:

- Standardize the amount of land that must be set-aside by developers for elementary, middle, and high schools and require jurisdictions to enforce set-asides for school sites;
- Require that land be provided to school districts without charge by developers (or at a significant discount), or require jurisdictions to collect impact fees that can be allocated to school districts to pay for new schools;
- Require that if the location of land set aside for a school must be moved, a new comparable site of the same size must be provided;
- Require developers to pay the cost (or some share) of infrastructure improvements;
- Explore development and construction methods and new construction technologies in order to reduce costs; and
- Encourage jurisdictions to establish a committee of relevant parties (e.g., school district officials, developers, county and city agencies) to identify the school site and required remediation as part of the negotiations process.

## **6. Assess the benefit of expanding the role of the State in developing design guidelines and standards**

Overall design guidelines can affect (and increase) the cost of school construction. Unlike other states, Nevada has not developed design guidelines, which makes it difficult to determine whether Nevada's design fees are reasonable (compared to other states). The SAGE Commission may want to consider whether there is a financial benefit from having the State expand its role in the development of design guidelines and standards. Based on the analysis, the SAGE Commission may want to consider recommending that the Legislature ask the State develop guidelines. Should the State play a role in developing design guidelines and standards, it will be critical to craft these in collaboration with local school districts and consider the local preferences and differences across the State.

One option could be to have the State Public Works Board design to develop a prototype elementary, middle and high school design that could be used by any school district statewide. This would help establish general standards of what should be included in a modern school facility. These designs could be owned by the State instead of a private architect and could then be adapted to each site. In the case of small districts, it may be desirable for the State Public Works Board to adapt the design to the site.

Additionally, drawing on models developed in other states, the SAGE Commission could recommend that the Legislature require the State to develop cost guidelines for architecture/engineering fees for school facilities projects to standardize expectations and control costs. These policy guidelines could reduce construction costs, particularly in rural areas.

Finally, there are significant opportunities for value engineering in the construction of school facilities. Districts could utilize the value engineering process without compromising safety requirements and instructional needs. The SAGE Commission may want to recommend that the Legislature commission an independent operational audit to explore opportunities for value engineering in the construction of schools.

## 7. Leverage existing State resources to improve the delivery method

Nevada law currently authorizes schools to use one of three delivery methods for school construction: design-bid-build, construction manager at risk (CMAR), and design build. Under each of these delivery methods, it could be advantageous for school districts to have a project manager that reports directly to the school district to ensure that the district's interests are being represented at all times.<sup>90</sup> Both Clark County School District and Washoe County School District have permanent in-house project managers. It is more difficult, however, for small districts to employ project managers.

To address the challenges of small districts (and potentially lower costs), the SAGE Commission should consider recommending that the Legislature consider the feasibility of having the State take on a significant role to assist small school districts with design and project management. As an example, the State Board of Public Works currently provides design and project management services for capital projects at and across all state agencies and the Nevada System of Higher Education. The Legislature should explore whether the State Board of Public Works could expand its existing role to provide this service to small school districts. This would ensure that all school districts could have access to professional project management services without having to dedicate limited resources to maintaining this expertise in-house.

Second, the CMAR option will expire on June 30, 2017 unless further Legislative action is taken to extend it (NRS 338.165 et seq). Second, the law limits small school districts with a population of less than 100,000 to two CMAR projects per year (NRS 338.169). The SAGE Commission could recommend that the Legislature remove the sunset from the CMAR process and remove the restrictions for smaller school districts.

To lower costs, the SAGE Commission may want to suggest that the Legislature encourage school districts to explore creating incentives for contractors to retain all or some share of realized savings if they finish under budget or finish ahead of schedule. School districts should review projects with the goal of achieving greater economies of scale. For example, if a district needs to replace boilers or HVAC systems at several sites, it could roll these together into a single bid.

## 8. Assess the impact of labor costs on construction costs

An additional key driver of school construction costs is the cost of labor, which is influenced by a combination of market conditions as well as State laws setting minimum wage standards for public works projects. During the 78th Legislative Session (2015), the Legislature approved AB172, which sets the prevailing wage for school districts at 90 percent of the prevailing wage on other public works projects. In contrast, Nevada charter schools are exempt from prevailing wage requirements. AB172 also increased the prevailing wage threshold for all public works projects from \$100,000 to \$250,000.

To assess the impact of labor costs on construction costs, the SAGE Commission could consider recommending that the Legislature collect data and compare construction costs between charter schools and school districts, taking into account differences in construction methods and quality of materials. Decision makers could use this comparative information to inform their overall understanding of the drivers of construction costs and consider various policy options, as appropriate.



## 9. Improve financing options available to school districts

The most significant cost of borrowing to finance new school construction is the amount of interest that will need to be paid. One of the most significant factors influencing the interest rate is a school district's bond rating. To help enhance their bond ratings, school districts can use the State Permanent School Fund as a guarantee (NRS 387.513 et seq.) A school district can have a maximum of \$40 million in guaranteed bonds outstanding at one time. This cap was last increased in 2007 (Statutes of Nevada 2007, Chapter 291). A total of 11 school districts currently use this guarantee.<sup>91</sup> A few school districts (Carson City, Douglas, Lyon, and Nye) are close to the cap. Since the cap has not been reviewed for nearly 10 years, the SAGE Commission may want to consider recommending that the Legislature review the value and/or need of the Permanent School Fund to determine whether the cap can or should be increased in statute. Additionally, the SAGE Commission may want to suggest that the Legislature consider expanding the definition of capital expenditures and what can be purchased using sources of capital financing. Given the salience of technology in the classroom, it is critical that school districts are able to treat technology infrastructure and hardware (portables devices, computer tablets) as capital expenditures.

## 10. Consider new options for charter school facilities funding

Charter schools have historically received less State and Federal categorical funds than school districts. While charter schools are eligible to receive funding from most state categorical programs, they are not eligible Class Size reduction, the largest program. Charter schools also lack access to facilities funds received by school districts.

The average capital revenue sources in FY 2015 was \$1,288 per pupil. Charter schools, however, do not have access to any of these funds and must use their operations funding to meet these school facilities needs. In lieu of direct funding for facilities, charter schools have access to the Account for Charter Schools, a revolving loan fund (NRS 386.576). Loan funds accessed by charter schools must be repaid with regular operational funds provided by the State Distributive School Account. The Account for Charter Schools or revolving loan fund was funded for the first time in 2013 with a one-time State appropriation of \$750,000. This funding must be used to make loans at or below market rate to charter schools for costs incurred in preparing a charter school to commence its first year of operations or to improve a charter school that has been in operation. To date, only two charter schools have received loans from this fund. The maximum loan amount is the lesser of \$500 per pupil or \$200,000 (NRS 386.577). Repayment must be completed in three years out of State funding provided through the Distributive School Account (NAC 386.445).

One challenge of this revolving loan program is that State funding is provided on a reimbursement basis, which means that the charter school must obtain an initial source of funding from sources such as credit cards, personal loans, or a high interest commercial loan. Additionally, charter schools have expressed concern that the State revolving loan (maximum amount is \$200,000) will not provide enough financing to cover all facilities and equipment expenses.

In addition, the Nevada Department of Business and Industry can also issue tax-exempt lease revenue bonds to be repaid by a charter school. However, to qualify for this financing option, the school must have received four or five stars under Nevada's school performance framework over the last three years.



There are a number of policies that could help address the school facility needs of charters schools in Nevada. First, the SAGE Commission could recommend that the Legislature increase the appropriation for the Account of Charter Schools revolving loan fund (funded in 2003 with \$750,000) and consider offering a matching grant program. A long-term solution would provide charter schools with a proportionate share of school facilities revenue. Since the primary capital funding source is bond proceeds from ad valorem and other taxes, the SAGE Commission may want to consider recommending that the Legislature require school districts to set aside a proportionate share of any new bond proceeds for charter schools located within the district, regardless of whether the school is sponsored by the district. This, of course, would require increased levels of overall education funding that take into account the cost of providing an adequate education.<sup>13</sup>

Because charter schools do not receive facilities funding, most charter schools use operational funds for facilities costs. The SAGE Commission may want to recommend that the Legislature consider providing Class Size Reduction funds to charter schools.

Alternatively, a new State school facility fund or revolving loan fund could be made available to both charter schools and small school districts. The State could use state facility funds (as well as other funds like Classroom Size Reduction) as an incentive to reward those charter schools who are working with under-resourced children or located in low income neighborhoods.

Since the primary facilities cost for many charter schools is lease costs, any future facility program should make lease costs an allowable use of funds. The SAGE Commission may want to suggest that the Legislature allow facilities funds to be used for leasing costs at charter schools.

To address the issues caused by the lack of cafeteria facilities, the new facilities funding mechanism could incentivize building cafeteria facilities by providing additional funding for this purpose. The SAGE Commission may want to recommend that the Legislature create incentives for charter schools to use capital funding to build cafeteria facilities. Implementing a school lunch program would make charter schools more accessible to low-income families.

Finally, charter schools have to undertake significant regulatory and permitting hurdles in order to prepare their facilities. The burden in time is significant for small operators that do not have the staff or resources. The SAGE Commission should explore ways to standardize, centralize and ease the permitting process for individual charter schools.

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<sup>13</sup> During the 71<sup>st</sup> Legislative Session (2001), the Commission for the New Construction, Design, Maintenance and Repair of School Facilities (unsuccessfully) proposed a bill that would have revised provisions governing calculations of guaranteed basic support of school districts to provide money for maintenance and repair of school buildings.

## Conclusion

Nevada has experienced tremendous population growth. Unfortunately, the steady growth has placed tremendous demands on the capacity of our infrastructure, including our State's public school facilities. Moreover, growth has not been evenly distributed across the State and many rural districts have not been able to address their facility needs. The SAGE Commission must now consider whether the continued infrastructure demands and uneven growth warrant an increased involvement from the State, which historically has not played a role in school facility construction or maintenance.

Some research suggests that there is a link between the physical state of our school facilities and overcrowding and academic achievement. According to the U.S. Department of Education, "Good facilities appear to be an important precondition for student learning, provided that other conditions are present that support a strong academic program in the school."<sup>92</sup> These studies found that structural building issues, as well as superficial features (e.g., paint color) had some impact on student achievement (measured by test scores).

While there are a number of factors that impact student academic achievement more decidedly, the physical state of our school facilities is a critical issue that our political leaders must address for the long term benefit of our children and our community. Effective solutions must seek an appropriate balance between rural and urban concerns (and differences), local versus State control, public versus private, market-based solutions, and long-term versus short-term priorities.

**Appendix A. Capital Outlay and State Assistance, By State, 2010<sup>93</sup>**

State	% State Funding for School Construction	Rank	Publicly available inventory	State Facilities Plan	Facilities Standards	State Facility Entity	Technical Assistance	Fund Charter Facilities
Alabama	52%	14	No	Yes	No		Yes	No
Alaska	85%	5	Yes	Yes	Yes		Yes	Yes
Arizona	32%	19	Yes	No	Yes	Yes	Yes	No
Arkansas	19%	27	Yes	Yes	Yes		Yes	No
California	30%	23	No	No	Yes	Yes	Yes	Yes
Colorado	1%	39 (3)	Yes	No	No		Yes	Yes
Connecticut	28%	28	No	No	Yes		No	Yes
Delaware	64%	7	Yes	Yes	Yes		Yes	No
D.C.	143%	1 (4)	No	Yes	Yes	Yes	Yes	Yes
Florida	21%	24	Yes	No	Yes		Yes	Yes
Georgia	15%	30	No	Yes	Yes		Yes	Yes
Hawaii	100%	1	Yes	Yes	Yes		Yes	Yes
Idaho	11%	33	No	No	Yes		No	Yes
Illinois	8%	34	Yes	Yes	Yes		Yes	Yes
Indiana	0%	bottom	No	No	Yes		Yes	.
Iowa	61%	9	Yes	No	No		Yes	Yes
Kansas	61%	8	No	No	No		Yes	Yes
Kentucky	41%	17	No	Yes	Yes	Yes	Yes	No
Louisiana	0%	bottom	No	No	No		No	No
Maine	84%	6	Yes	No	Yes		Yes	.
Maryland	32%	20	Yes	No	No	Yes	Yes	Yes
Massachusetts	194%	1 (4)	Yes	Yes	Yes	Yes	Yes	No
Michigan	0%	bottom	No	No	No		No	No
Minnesota	21%	25	Yes	No	Yes		Yes	No
Mississippi	0%	bottom	No	No	Yes		Yes	Yes
Missouri	0%	bottom	No	No	No		No	No
Montana	12%	32	Yes	No	No		No	No
Nebraska	0%	bottom	No	No	No		No	.
<b>Nevada</b>	<b>0%</b>	<b>bottom</b>	<b>No</b>	<b>No</b>	<b>No</b>		<b>No</b>	<b>No</b>
New Hampshire	31%	21	Yes	No	Yes		Yes	Yes
New Jersey	57%	10	Yes	No	Yes	Yes	Yes	No
New Mexico	52%	13	No	No	Yes	Yes	Yes	Yes
New York	52%	12	Yes	No	Yes		Yes	No
North Carolina	15%	29	Yes	No	No		Yes	No
North Dakota	0%	bottom	No	No	No		No	No
Ohio	50%	15	No	Yes	Yes	Yes	Yes	No
Oklahoma	0%	bottom	No	No	Yes		Yes	.
Oregon	3%	37	No	No	No		No	No
Pennsylvania	4%	36 (2)	.	.	.		.	.
Rhode Island	34%	18	No	Yes	Yes		Yes	Yes
South Carolina	2%	38	Yes	No	Yes		Yes	No
South Dakota	0%	bottom	No	No	No		No	No
Tennessee	57%	11	No	No	Yes		No	No
Texas	13%	31	No	No	Yes		Yes	No
Utah	6%	35	No	No	Yes		Yes	No
Vermont	31%	22	No	No	Yes		Yes	No
Virginia	0%	bottom	.	.	.		.	.
Washington	20%	26	Yes	No	No		Yes	No
West Virginia	45%	16	Yes	No	Yes	Yes	Yes	.
Wisconsin	0%	bottom	No	No	No		No	No
Wyoming	106%	1 (4)	Yes	No	Yes	Yes	Yes	No

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