Executive Summary

Funding for K-12 school facilities has become a major issue throughout Nevada. Urban areas face aging facilities as well as growth in student enrollment, while rural areas have many deferred maintenance and replacement needs. The total unfunded cost of repair, renovation and construction is estimated at $7.3 billion in the Clark County School District and $784 million in the Washoe County School District. The cost of replacing rural school buildings over 50 years old is estimated at $450 million.

The revenue generated by current capital financing tools falls short of meeting school districts’ needs. While Nevada Governor Brian Sandoval recently said he would “support legislation to approve a temporary rollover of bonding authority for the construction and maintenance of local schools, with state oversight,” the current structure of financing tools limits the potential impact of this proposed policy change.

Existing financing tools rely solely on local funding and have not generated adequate revenue in a timely manner. In addition, there are disparities between school districts because each district has a different set of funding sources that it can use. During the 2015 Legislative Session, the Legislature should take the following steps to expand the financing options available to school districts to meet capital needs:

1. Create a statewide funding mechanism for school facilities. This would likely require the State to issue general obligation bonds and increase the ad valorem tax rate statewide.

2. Provide school districts with the ability to create Special Improvement Districts. This would give school districts a tool to finance school construction in new housing developments.

3. Explore the feasibility of creating multi-county tax districts for rollover bonds. This would allow small school districts to pool their resources together and would help address issues where there is an absence of alignment between where people live and where revenues are generated.

4. Change Existing Laws Related to Tax Caps and Abatements:
   a. Exempt new voter-approved bonds from the statutory tax cap of $3.66 per $100 of assessed valuation. This would allow school districts to ask voters to increase tax rates in counties that are already at or near the tax cap.
   b. Exempt voter-approved tax increases from the property tax abatements for one year. In the first year of a tax rate increase, this would allow taxes to increase by more than the statutory abatement caps of 3 percent for residential property and 8 percent for other property.
   c. Reset property tax abatements when property is sold. This would allow taxes to be assessed at market value when a property changes hands.

5. Encourage the Governor’s Office of Economic Development to conduct a school facilities impact study and develop a funding plan prior to approval of development incentives. This would help ensure that school facilities needs are addressed when school districts forgo future revenue.
Introduction

The need to construct and upgrade K-12 school facilities has become a major issue in Nevada. Facilities throughout the State are aging and need significant upgrades or replacement. In addition, the Clark and Washoe County School Districts have been unable to keep pace with recent and projected increases in student population, which has placed tremendous pressure on the capacity of existing facilities. The ability to address the facilities needs of school districts is limited. Neither Clark nor Washoe County currently have the ability to bond against property taxes, and other revenue sources are insufficient to pay for needed capital projects. In addition, many rural school districts have a narrow tax base that makes it difficult to leverage sufficient funding to meet critical facility needs.

Currently, a variety of local funding sources are available to school districts to address their capital needs, including ad valorem taxes, sales taxes, governmental services taxes, and other local taxes. However, the type of taxes available to each district varies by statute. In addition, 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 throughout the State.

In Governor Brian Sandoval’s State of the State speech, he committed to “support legislation to approve a temporary rollover of bonding authority for the construction and maintenance of local schools, with state oversight” as a way of helping school districts address their capital needs. However, the current structure of financing tools limits the potential impact of this proposed policy change.

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 can 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.

Need for upgrades and new facilities spans urban and rural districts

While all school districts in Nevada have unfunded capital needs, 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. A summary of facility needs identified by school districts is described below:

- **Clark County School District:** Fifteen percent of Clark County School District school campuses are over 50 years old and 50 percent are over 20 years old. The district estimates that it has $6.4 billion in unfunded needs for modernization, technology, equipment, and upgrades to achieve educational equity across the district. Elementary schools are currently 17.6 percent over capacity, which has resulted in increased reliance on portables and year-round schedules. The district anticipates the
need for 32 new schools to address enrollment growth at a cost of $896 million. This brings the total capital need to $7.3 billion for current needs, not including any future growth.

- **Washoe County School District**: Twenty-five percent of schools in the Washoe County School District are over 50 years old. Elementary schools are currently at 103.6 percent of base capacity, middle schools are at 96.7 percent of base capacity, and high schools are at 109.3 percent of base capacity. Over the next 10 years, the district has $175 million in unfunded school renovation and repair needs. The district estimates it will also need over 14 new schools over the next 10 years (eight elementary, four middle, and 2.5 high schools) based on current needs and projected growth at a cost of $609 million. This brings the total 10-year capital need to $784 million.

- **Rural districts**: Fifteen percent of rural schools are over 50 years old, which represents approximately $450 million in replacement costs. In addition, approximately 50 percent of rural facilities are in need of improvement. There is great variation in the ability of rural school districts to fund these capital projects. While some districts have critically unmet needs, others 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. For example, from FY 2011 to FY 2014, Eureka transferred $23.6 million from the general fund to the capital fund. Over this time period, Humboldt transferred $6.6 million and Lander transferred $9.7 million.

### Facilities Needs by the Numbers

- **Clark County School District**: $6.4 billion for existing facilities + $896 million for new facilities = $7.3 billion for current needs
- **Washoe County School District**: $175 million for existing facilities + $609 million for new facilities = $784 million for current needs and projected growth
- **Rural School Districts**: $450 million replacement cost for buildings over 50 years old + other unquantified capital needs

### Current Capital Financing Tools Are Limited

The tools currently available to school districts to obtain facilities funding have many constraints and have not been adequate 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 1. As presented in Column J of Table 1, revenues per pupil vary greatly throughout the State. Details about these revenue sources and their limitations are provided following Table 1.
Taxes authorized by Legislature and Counties: School districts 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 Legislature. In some cases, the Legislature 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 system that provides vastly different resources for each school district (see Table 1).

- **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 for school districts with “emergency conditions” and 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 $305,009 in FY 2014.
  - The second option is a 0.25 percent sales tax that can be imposed by the county commission in areas 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

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**Table 1: FY 2014 Actual Capital Funds Received**

<table>
<thead>
<tr>
<th>District</th>
<th>A Sales Tax</th>
<th>B Residential Construction Tax</th>
<th>C Real Property Transfer Tax &amp; Room Tax</th>
<th>D Ad Valorem (Voter-Approved)</th>
<th>E Governmental Services Tax</th>
<th>F Other Local Revenue</th>
<th>G Federal Support</th>
<th>H Total</th>
<th>I Total per Pupil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carson City</td>
<td>-</td>
<td>-</td>
<td>5,400,522</td>
<td>448,076</td>
<td>80,533</td>
<td>-</td>
<td>5,929,131</td>
<td>815</td>
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<tr>
<td>Churchill</td>
<td>-</td>
<td>11,628</td>
<td>3,674,245</td>
<td>314,693</td>
<td>266,871</td>
<td>116,909</td>
<td>4,384,345</td>
<td>1,239</td>
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<tr>
<td>Clark</td>
<td>-</td>
<td>95,378,588</td>
<td>297,236,644</td>
<td>23,504,375</td>
<td>4,819,769</td>
<td>5,636,421</td>
<td>426,575,997</td>
<td>1,406</td>
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<tr>
<td>Douglas</td>
<td>-</td>
<td>212,848</td>
<td>2,469,050</td>
<td>975,376</td>
<td>4,780</td>
<td>351,049</td>
<td>4,013,103</td>
<td>682</td>
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</tr>
<tr>
<td>Elko</td>
<td>-</td>
<td>-</td>
<td>13,182,157</td>
<td>-</td>
<td>342,299</td>
<td>-</td>
<td>13,524,456</td>
<td>1,424</td>
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<tr>
<td>Esmeralda</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22</td>
<td>-</td>
<td>22</td>
<td>0</td>
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<td>Eureka</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>433</td>
<td>-</td>
<td>433</td>
<td>2</td>
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<tr>
<td>Humboldt</td>
<td>-</td>
<td>-</td>
<td>1,560,102</td>
<td>263,055</td>
<td>6,459</td>
<td>-</td>
<td>1,829,616</td>
<td>544</td>
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<tr>
<td>Lander</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>251</td>
<td>-</td>
<td>251</td>
<td>0</td>
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<tr>
<td>Lincoln</td>
<td>-</td>
<td>-</td>
<td>456,835</td>
<td>155,413</td>
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<td>656,581</td>
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<tr>
<td>Lyon</td>
<td>-</td>
<td>183,808</td>
<td>6,646,487</td>
<td>529,154</td>
<td>9,600</td>
<td>-</td>
<td>7,369,048</td>
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<tr>
<td>Mineral</td>
<td>-</td>
<td>-</td>
<td>366,844</td>
<td>39,375</td>
<td>639</td>
<td>-</td>
<td>406,858</td>
<td>926</td>
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<tr>
<td>Nye</td>
<td>-</td>
<td>84,054</td>
<td>6,199,643</td>
<td>574,651</td>
<td>202,220</td>
<td>797,726</td>
<td>7,858,294</td>
<td>1,560</td>
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<tr>
<td>Pershing</td>
<td>-</td>
<td>-</td>
<td>990,332</td>
<td>129,561</td>
<td>1,264</td>
<td>-</td>
<td>1,121,157</td>
<td>1,645</td>
<td></td>
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<tr>
<td>Storey</td>
<td>-</td>
<td>1,980</td>
<td>47,791,419</td>
<td>3,162,904</td>
<td>2,946,399</td>
<td>-</td>
<td>53,900,722</td>
<td>887</td>
<td></td>
</tr>
<tr>
<td>Washoe</td>
<td>-</td>
<td>-</td>
<td>809,580</td>
<td>96,031</td>
<td>44,340</td>
<td>-</td>
<td>1,254,960</td>
<td>963</td>
<td></td>
</tr>
<tr>
<td>White Pine</td>
<td>305,009</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Source: NRS 387 Report, Clark County School District, Nye County School District Audit.

**Notes:**
- **Source:** NRS 387 Report, Clark County School District, Nye County School District Audit.
- **Table 1:** FY 2014 Actual Capital Funds Received
- **Districts:** Carson City, Churchill, Clark, Douglas, Elko, Esmeralda, Eureka, Humboldt, Lander, Lincoln, Lyon, Mineral, Nye, Pershing, Storey, Washoe, White Pine, Statewide
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 2014, five school districts received this funding for a total of $494,318 (see Table 1, Column C).

- **Real Property Transfer Tax:** This tax is levied when property is transferred. Although this is a statewide tax, rates vary by county. The Clark County School District is the only school district that receives a portion of this revenue. The tax rate for the Clark County School District is 60 cents for each $500 of value or fraction thereof (NRS 375.070). The district received $21.3 million in FY 2014 (Table 1, Column D).

- **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 $74.1 million in FY 2014 (Table 1, Column D).

2. **Voter-approved options:** Voter-approved ad valorem taxes are the largest funding source for school capital needs, generating $387.4 million in FY 2014 (Table 1, 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 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. Statewide, the Governmental Services Tax generated $30.2 million statewide in FY 2014 (Table 1, Column F).

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.

In order for school districts to bond against property taxes, there must be a confluence of several factors: (1) there must be voter authorization; (2) the countywide tax rate must be within the $3.66 per $100 tax cap; (3) the district
### POLICY BRIEF

A district must have voter authorization to issue 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 shown in the inset box.

**Table 2: Factors Affecting School District Ability to Issue Debt Against Ad Valorem Taxes**

<table>
<thead>
<tr>
<th>District</th>
<th>Voter Authorization</th>
<th>School Debt Rate 2014-15</th>
<th>Capacity for higher rate (3.66-%)</th>
<th>Outstanding General Obligation Bonds 2013-14</th>
<th>% of Assessed Valuation 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carson City</td>
<td>Rollover expires 2020</td>
<td>0.0300</td>
<td>3.6600</td>
<td>0.1200</td>
<td>53,259,000</td>
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<tr>
<td>Churchill County</td>
<td>Rollover expires 2018</td>
<td>0.3500</td>
<td>3.6600</td>
<td>0.0000</td>
<td>30,685,000</td>
</tr>
<tr>
<td>Clark County</td>
<td>Rollover expires 2008</td>
<td>0.0500</td>
<td>3.6600</td>
<td>0.0000</td>
<td>2,210,260,000</td>
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<tr>
<td>Elko County</td>
<td>Pay-as-you-go expires 2022</td>
<td>0.0000</td>
<td>3.6567</td>
<td>0.0033</td>
<td>-</td>
</tr>
<tr>
<td>Esmeralda County</td>
<td>None</td>
<td>0.0000</td>
<td>3.6600</td>
<td>0.0000</td>
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<tr>
<td>Eureka</td>
<td>None</td>
<td>0.0000</td>
<td>1.9896</td>
<td>1.6704</td>
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<tr>
<td>Humboldt County</td>
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<td>0.0000</td>
<td>3.4607</td>
<td>0.1993</td>
<td>8,960,000</td>
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<tr>
<td>Lyon County</td>
<td>Rollover expires 2016</td>
<td>0.3350</td>
<td>3.6600</td>
<td>0.0000</td>
<td>70,170,000</td>
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<tr>
<td>Lincoln County</td>
<td>Traditional expired 2014</td>
<td>0.2231</td>
<td>3.6600</td>
<td>0.0000</td>
<td>5,397,900</td>
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<tr>
<td>Lander County</td>
<td>None</td>
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<td>3.6600</td>
<td>0.0000</td>
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<tr>
<td>Mineral County</td>
<td>None</td>
<td>0.0000</td>
<td>3.6600</td>
<td>0.0000</td>
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<tr>
<td>Mineral County</td>
<td>Traditional expired 2002</td>
<td>0.2800</td>
<td>3.6600</td>
<td>0.0000</td>
<td>1,450,000</td>
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<tr>
<td>Nye County</td>
<td>Rollover expires 2016</td>
<td>0.5850</td>
<td>3.6599</td>
<td>0.0001</td>
<td>85,810,000</td>
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<tr>
<td>Pershing County</td>
<td>Rollover expires 2016</td>
<td>0.4000</td>
<td>3.6592</td>
<td>0.0008</td>
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<tr>
<td>Storey County</td>
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<td>3.6600</td>
<td>0.0000</td>
<td>-</td>
</tr>
<tr>
<td>Storey County</td>
<td>Rollover expires 2016</td>
<td>0.1000</td>
<td>3.6600</td>
<td>0.0000</td>
<td>37,110,000</td>
</tr>
<tr>
<td>Washoe County</td>
<td>Rollover expires 2012</td>
<td>0.0300</td>
<td>3.6600</td>
<td>0.0000</td>
<td>498,030,000</td>
</tr>
<tr>
<td>White Pine County</td>
<td>None</td>
<td>0.0000</td>
<td>3.6600</td>
<td>0.0000</td>
<td>-</td>
</tr>
<tr>
<td>White Pine County</td>
<td>Rollover expires 2018</td>
<td>0.2490</td>
<td>3.6600</td>
<td>0.0000</td>
<td>2,085,000</td>
</tr>
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</table>

- **Voter Authorization:** A district must have voter authorization 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 shown in the inset box.

- **School Debt Rate 2014-15:** The debt rate is the percentage of the assessed valuation that is used to pay the debt service on the bonds. It is calculated as follows:
  
  \[ \text{Debt Rate} = \frac{\text{Outstanding General Obligation Bonds}}{\text{Assessed Value}} \times 100 \%
  
- **Capacity for higher rate (3.66-%):** The capacity for higher rate is the maximum debt rate that a district can issue bonds at. It is calculated as follows:
  
  \[ \text{Capacity for higher rate} = \frac{\text{Assessed Value}}{\text{Outstanding General Obligation Bonds}} \times 3.66\% \]

- **Outstanding General Obligation Bonds 2013-14:** The outstanding general obligation bonds are the amount of bonds that have been issued but not yet paid off. It is calculated as follows:
  
  \[ \text{Outstanding General Obligation Bonds} = \text{Assessed Value} - \text{Debt Capacity} \]

- **% of Assessed Valuation 2013-14:** The % of Assessed Valuation is the percentage of the assessed value that is used to pay the debt service on the bonds. It is calculated as follows:
  
  \[ \text{% of Assessed Valuation} = \frac{\text{Outstanding General Obligation Bonds}}{\text{Assessed Value}} \times 100 \%\]
• **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 2 provides each school district’s current debt rate and the highest overlapping tax rate in the county (Columns B and C). 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 (Column D). This table shows that eight out of 17 school districts are already at the maximum tax rate and cannot ask voters to increase the property tax rate.

• **Debt Capacity:** A school district 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 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 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.\(^{10}\)

Here we note that property taxes may grow at an even slower rate in future years, due to the structure of the calculation of the abatement. The tax abatement is calculated in a two-step process. The first step is to calculate the greater of the 10-year rolling average of the change in assessed valuation or two times the Consumer Price Index (NRS 361.4722 et seq.). For the second step, the result of step one is capped at 3 percent for residential property and 8 percent for other property. Over the next few years, time-periods with large increases in assessed valuation will no longer be included in the calculation and the 10-year average could be 0 percent, which is the minimum growth rate allowed in statute. In a given year, the maximum increase would be less than 3 percent if the 10-year change in assessed valuation is less than 3 percent and CPI is less than 1.5 percent.

Information is not currently available to analyze the debt capacity of each district. However, the Clark County School District has released information on the amount of debt it could issue if a new 10-year rollover bond is approved by voters in November 2016. The district estimates it
could issue $2.969 billion over 10 years.\textsuperscript{11} There would likely be a bond issuance each year, beginning with $405.9 million in 2016. The Washoe County School District estimates that it would have the ability to issue $270 million over 10 years if a rollover bond were approved. However, the amount that could be issued in 2016 would be only $10 million, while a new school typically costs approximately $20 million. This explains why Governor Sandoval's commitment to approve a temporary rollover of bonding authority for the construction and maintenance of local school facilities will not immediately alleviate Washoe County School District's capital challenges.

- **Debt Limit:** Outstanding general obligation bonds are limited to 15 percent of assessed valuation for school districts (NRS 387.400). As Table 2 reveals, all of Nevada's school districts are well below the 15 percent limit (Columns E and F). The district with the highest outstanding debt is Nye County at 6.5 percent of assessed valuation. Four school districts have no outstanding debt.

3. **Other Local and Federal Revenue:** School districts also receive local and Federal revenues for capital projects but they are a minor source of revenue (see Table 1, Columns G and H). Most of the local revenue is from investments. The Federal revenue represents bond interest subsidies from the Build America Bond and Qualified School Construction Bond programs.\textsuperscript{12}

**Property Tax Abatements Create Additional Challenges for School Districts**

The property tax abatements discussed above create other challenges for school districts. They make it difficult for districts to receive additional revenue from increased tax rates and they constrain revenue growth when property is sold.

- **Voter-approved tax increases:** The tax abatements create challenges for districts seeking to increase their tax rate through voter approval. Because the abatements place a cap on property tax increases, a tax rate increase can result in no net increase in revenue to local entities. Table 3 illustrates a situation where taxes total $1,000 on a home in the first year and the property value increases by 10 percent in the second year. In Scenario 1, the tax rate remains constant at $3.20 per $100 of assessed valuation while Scenario 2 shows an increased tax rate of $3.66 in Year 2. In both cases, the tax can only increase by 3 percent in Year 2 and the total revenue generated is $1,030 as shown on lines D and F. In practice if a school district increased its tax rate as shown in Scenario 2, total revenue would remain the same as it would without the tax rate increase.

Alternatively, school districts could receive a one-year exemption from the abatement cap for the rate increase as shown in Scenario 3. In this example, the tax is separated into two rates. The original $3.20 rate would be subject to the cap and would generate $1,030 in revenue (Line H) while the increase of $0.46 would not be subject to the cap and would generate $177 in revenue (Line I). This example produces revenue of $1,207 in Year 2 as shown on Line J, which is greater than the revenue generated in Scenario 2 of $1,030. An exemption of one year would allow the base to be reset at a new higher rate. In subsequent years, the regular property tax abatement formula could apply.

While no jurisdiction currently has an exemption to these abatement caps, the Clark County School District included an exemption in a 2012 ballot measure that would have levied an additional property tax rate of up to 21.2 cents per $100 of assessed valuation.\textsuperscript{13} This measure was not approved.
Property Transfers: These tax abatements also constrain potential revenue growth when property is sold. Under current law, the property tax abatement remains with the property, even if it is sold at a higher market rate (NRS 361.4722 et seq.). This means that the taxes paid by the prior owner carry over to the new owner and can only increase by the maximum of 3 or 8 percent per year. Alternatively, the tax abatement could be reset to zero when a property is sold. This would allow a property to be taxed at its full rate in the first year. In subsequent years, the abatement caps could apply. This would help increase revenue more quickly than under current law. A number of other states have considered provisions to reset assessed valuation when a property is sold; efforts in some states (California, South Carolina) have been successful, while others (Oregon) have not.

Rollover Bond Extension Would Have Limited Impact

Governor Sandoval supports temporary extension of rollover bonding authority for the construction and maintenance of local schools. Senate Bills 106 and 119 would take Legislative action to extend expired rollover bond authority for 10 years without going back out to the voters. Bonds would have to be issued within the existing tax rate. While this bill would expedite construction of facilities in Clark County, it would not likely accelerate capital projects in the rest of the state and would not generate sufficient revenue to address outstanding capital needs.

This proposal would extend the Clark County School District’s authority to issue new bonds through 2025. This would enable the district to issue bonds in FY 2016, which is one year earlier than the district would be able to issue debt if the voters approve a new 10-year rollover bond in November 2016. Under the proposed extension, the district estimates that it could issue $266 million in September 2015 and build four new schools by August 2017. Issuances would continue over the 10-year extension for a total of $2.8 billion. During the same time period, the district could issue $713.5 million in bonds from other revenues for a total bond program of $3.5 billion. While this proposal would help begin to meet critical overcrowding issues in the district, it would not address the full facility needs currently identified by the district, which total $7.3 billion. A shortfall of $3.8 billion for current needs would remain. Future student population growth would add to this shortfall.

Table 3: Impact of Tax Abatements on Rate Increases

<table>
<thead>
<tr>
<th>Line</th>
<th>Item</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Home Value</td>
<td>100,000</td>
<td>110,000</td>
</tr>
<tr>
<td>B</td>
<td>Taxable Value (A x 35%)</td>
<td>35,000</td>
<td>38,500</td>
</tr>
<tr>
<td>C</td>
<td>Constant $3.20 tax rate ($3.2/100)</td>
<td>1,120</td>
<td>1,232</td>
</tr>
<tr>
<td>D</td>
<td>Actual taxes with maximum 3% increase</td>
<td>1,000</td>
<td>1,030</td>
</tr>
<tr>
<td>E</td>
<td>$3.20 tax rate in Yr 1 &amp; $3.66 in Yr 2</td>
<td>1,120</td>
<td>1,409</td>
</tr>
<tr>
<td>F</td>
<td>Actual taxes with maximum 3% increase</td>
<td>1,000</td>
<td>1,030</td>
</tr>
<tr>
<td>G</td>
<td>$3.2 tax rate subject to cap</td>
<td>1,120</td>
<td>1,232</td>
</tr>
<tr>
<td>H</td>
<td>Actual taxes for $3.2 tax rate with maximum 3% increase</td>
<td>1,000</td>
<td>1,030</td>
</tr>
<tr>
<td>I</td>
<td>Increase of $0.46 per $100 not subject to 3% maximum</td>
<td>177</td>
<td></td>
</tr>
<tr>
<td>J</td>
<td>Actual taxes- (Line H+ Line I)</td>
<td>1,000</td>
<td>1,207</td>
</tr>
</tbody>
</table>
The proposal would extend Washoe County School District’s bond authority through 2025. However, this would not likely have a significant impact in the near term. The district estimates that it will not have substantial capacity to issue new debt within the current tax rate of $0.3885 for a few years because the current revenues are being used to pay debt service from prior bond issuances and current tax revenues are not high enough to support substantial new debt service. In 2016, the district estimates it could issue only $10 million, which would not be sufficient to build a new school, which typically costs $20 million or more. Over a 10-year period, the district estimates it could issue $270 million. Since the capital needs over the next 10 years total $784 million, this would leave an unfunded need of $514 million.

No rural districts currently have expired rollover bonds. However, the proposal would extend bonding authority for 10 years once the original authority expires. As shown in Table 2, rollover bond authority for rural school districts will expire over the period of 2016 to 2022. Due to the limited tax base in many rural school districts, the revenue raised from the extended rollover bonds would likely be insufficient to meet all unfunded capital needs. In addition, this proposal would not assist the two rural districts that have expired traditional bonds (Lincoln and Mineral).

There are several limitations to this proposal. The revenue raised by extending rollover bonds will not generate sufficient revenue to address all unmet facility needs. In addition, extending rollover bonds without voter approval departs from the standard practice of how school districts have gained authorization to issue debt in the past. Voters have not been very responsive to school district ballot measures in recent years. In 2012, voters rejected a pay-as-you-go property tax proposal in Clark County that would have increased ad valorem taxes by $0.212 per $100. In 2008, Washoe County voters rejected an increase in sales and Governmental Services taxes for schools. In rural districts, voters turned down three rollover bond measures in November 2014 (Lyon, Mineral, and Nye).

Senate Bill 106 would also address some of the issues resulting from the property tax abatements. For districts that issue bonds under the extended rollover authority, this bill would exempt the school district debt rate from the abatement. Under this provision, the remaining portion of the property tax rate would still be subject to the abatement. The impact of this proposal would vary across the state since the debt rate is a different amount for each district as shown in Table 2.

**New Strategies Needed to Expand the Toolkit**

Given the limitations of the current funding mechanisms for school facilities, it is important to identify and consider new strategies to ensure that school facilities are adequately funded for the future. During the 2015 Legislative Session, the Nevada Legislature should consider expanding the toolkit available to school districts to meet capital financing needs. New strategies include providing statewide funding, creating assessment districts, and creating multi-county tax districts. The State can also modify the current ad valorem tax caps and property tax abatements to increase revenue. In addition, the State should consider taking school district facilities needs into account prior to approval of economic development incentives.

1. **Create and fund a statewide funding mechanism for school facilities.** Nevada’s state government has historically played a limited role in school facilities, leaving this responsibility to local school districts. The only funding program currently in statute is the Fund to Assist School Districts in Financing Capital Improvements, which is targeted at schools with emergency conditions that are fiscally unable
to make repairs (NRS 387.3335). The Legislature issued $16 million in bonds to fund this program in 1999 and it has not been funded since that time. Lincoln and White Pine are the only school districts that received funding under the program.

According to the Education Commission of the States, 38 states have some program that directs funds to school districts for capital expenditures. These programs include flat grants based on enrollment, grants based on need, grants that equalize funding based on wealth, and full state funding. Some programs require a local match while others do not. If Nevada were to create a statewide program, it would need to develop criteria for determining which entities should receive funding. To be able to compare school district needs, the State should conduct a statewide needs assessment and develop uniform criteria for adequate facilities.

Given scarce state resources, Nevada would likely need to issue State general obligation bonds to fund a statewide facilities program. These bonds could either be approved by the voters or the Legislature. In 2002, Nevada's voters approved a $200 million Conservation Bond measure. All other state bonds are approved every two years by the Legislature.

Here we note that there are several constraints associated with issuing State general obligation bonds. Under current law, $0.17 of the ad valorem tax rate is reserved to repay State bonds. According to the Nevada Department of Taxation, all of this revenue is needed to fund the $105 million State capital program proposed for the 2015-2017 biennium. Therefore, any additional State bonding would necessitate an increased tax rate, which would be outside the current $3.66 per $100 tax cap. The amount of debt the State could issue would also be limited by the Constitutional limit on State debt of 2 percent of assessed valuation (Nevada Constitution Article 9 Sec. 3). The Department of Taxation indicates that $805 million is the maximum additional amount that could be bonded in FY 2016 after taking into account proposed bonds.

The State would need to establish either a total funding amount or a maximum tax rate for a statewide school facilities program. For example, the State could establish a $200 million program. The tax rate associated with this program would fluctuate from year to year depending on how the debt service payments are structured and whether the bonds are issued all at one time or over several years. Alternatively, the State could establish a certain tax rate for a specific period of time and allow bonds to be issued within this tax rate. If the State established a $0.02 tax rate, for example, this could support an initial bond of approximately $190 million, assuming a 6 percent interest rate and 20-year payback period. Additional bonds could be issued in the future as property tax revenue increases.

As an alternative, the State could set aside revenue that school districts could bond against. Under this scenario, the debt would count against school districts’ debt limits instead of the State’s debt limit. However, given the revenue projections by the Economic Forum and the State’s base funding needs, the State would likely need to increase taxes or develop a new revenue source to implement this option.
A statewide program would help provide funds for school districts that have already run up against their tax caps or have a small tax base and cannot generate enough bond funding to meet facility needs. However, a statewide program could challenge the long-held belief that school capital funds raised within a county should remain within that jurisdiction. If an equity formula were to be created, it could be regarded as being a capital facilities version of the Nevada Plan, with Clark County subsidizing other parts of the State.

2. Provide school districts with the ability to create Special Improvement Districts. Under current law, Nevada’s municipalities can create Special Improvement Districts (SIDs) for public improvements such as roads, curbs, sidewalks, and utilities (NRS 271). In contrast, school districts do not have authority to create SIDs to construct school facilities. A key feature of SIDs is that they are assessments based on measures such as property frontage and are not considered property taxes. Therefore, SIDs are not subject to the $3.66 per $100 tax cap.

A SID can be created in several ways. Either the governing body or the property owners can initiate formation of the district. A protest hearing is then held by the governing body. If property owners representing 51 percent of the assessable footage protest the SID at the public hearing, the project cannot be approved unless the municipality is providing more than 50 percent of the funding for the district. Alternatively, the municipality and developer can initiate a SID and sign a contract. A protest hearing is not required under this option. After creation of the SID, the municipality issues bonds against the future revenue to fund the improvements.

In California, there are similar districts called Mello-Roos Communities Facilities Districts (California Government Code section 53311 et seq.), which have become very popular. These districts can fund a variety of public improvements, including schools. An estimated 90 percent of all planned unit developments in California utilize Mello-Roos districts to fund some type of infrastructure within the development. The improvements can be done all at once or phased in over time. These districts are considered special taxes and require a two-thirds vote of qualified voters in the district. When the district has fewer than 12 property owners, the district must be approved by a majority vote of the owners. In many cases, the developer is the sole property owner and only voter. The special tax is collected through the property tax bill.

An advantage of SIDs is that they can be targeted at high growth areas and do not need to be coterminous with the school district boundary. This could be particularly useful in Clark and Washoe counties. SIDs would be easiest to create before the land has been developed and the sole property owner is the developer, but they could also be created in new developments where some homes have already been sold. If introduced in Nevada, another key advantage of this financing tool is that the assessments would not be subject to the $3.66 tax cap.

One limitation of SIDs is that taxpayers in different parts of the school district would pay unequal amounts towards school capital needs. If a district also has an ad valorem tax rate for capital projects, a homeowner living in the SID would pay property taxes as well as the SID towards school facilities. As shown in Table 2, 14 school districts currently levy ad valorem taxes for facilities.
School attendance zone issues would also have to be addressed. If property owners are paying debt associated with a particular school, the school district would likely need to ensure that all properties in the SID are zoned for that school.

SIDs have been considered for the Clark County School District in the past. A determination was made that the Real Property Transfer Tax was a better solution because it generated revenue from across the county and did not create challenges for attendance zones. The Real Property Transfer Tax was also favored because funds could be used for renovation. Given that the Real Property Transfer Tax has not generated sufficient funds to address Clark County's capital needs, SIDs are an option that should be seriously explored.

3. **Explore the feasibility of creating multi-county tax districts for rollover bonds.** The State should explore the feasibility of creating tax districts that span more than one county to help equalize revenue available for capital projects. The voters of the multi-county district could approve a rollover bond with an increased tax rate that applies to all counties in the district.

Disparities currently exist between counties in their ability to fund capital projects. Due to the presence of the mining industry, some rural school districts receive large amounts of net proceeds of minerals taxes in their operating funds. As discussed earlier, Eureka, Lander, and Humboldt County School Districts have transferred some of this revenue to their capital funds. Both Eureka and Lander County School Districts have been able to fund needed capital improvements without issuing general obligation bonds. Meanwhile, other nearby districts have struggled with their capital needs. In addition, economic development projects can be located in a different county than where employees reside. For example, the Tahoe Regional Industrial Center is located in Storey County, but employees are anticipated to live primarily in other nearby counties. This can result in one school district receiving greatly increased property taxes from commercial property that is not available to build school facilities in the districts where pupils reside.

A key advantage of a multi-county tax district is that it could help address inequities between counties. It could help leverage sufficient funding to repair and replace facilities in rural areas that have not had a large enough tax base to do so on their own. A multi-county tax district could also help address issues where employers and employees are located in different counties. However, taxpayers in some counties may not want to share tax revenue that has traditionally been regarded as a local source.

With a view of increasing the toolkit of financing options available to school districts to address facility needs, the Nevada Legislature should consider Governor Brian Sandoval's proposal to consolidate small rural school districts. If rural school districts are consolidated, a need to create multi-county tax districts may no longer exist. Rather, the new, larger rural school districts would already have access to all the revenue generated by their member counties.

4. **Change Existing Laws Related to Tax Caps and Abatements:**
   a. **Exempt new voter-approved bonds from the statutory tax cap of $3.66 per $100 of assessed valuation.** The countywide statutory tax cap can make it difficult for school districts to seek increased tax rates since the tax rate in many counties is either at or near the cap. New voter-
approved bond issuances could be exempted from this cap as long as the countywide rate is lower than the constitutional limit of $5.00 per $100 of assessed valuation. There is precedent for the Legislature authorizing an exemption to this cap for school districts. The 5 cent ad valorem tax increase authorized in 2013 for the Washoe County School District would have been exempt from the $3.66 cap. However, this measure was not implemented.

b. Exempt voter-approved tax increases from the property tax abatement for one year. The current tax abatement structure makes it difficult for tax rate increases to generate new revenue. Exempting tax rate increases from the property tax abatements for one year would allow the base to be recalculated at a new higher rate. In subsequent years, the regular property tax abatement formula could apply.

c. Reset property tax abatements when property is sold. Under current law, the property tax abatement remains with the property, even if it is sold at a higher market rate. Allowing abatements to reset when property is sold could help increase tax revenue at a faster rate than under the current system and would not affect homeowners who remain in their homes. Nevada could model this provision after other states where assessed valuations are reset when properties are sold.

5. Encourage the Governor's Office of Economic Development to conduct a school facilities impact study and develop a funding plan prior to approval of development incentives. 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. In addition, approval of development incentives for several smaller projects in one geographic area can also have a collectively large impact on future student enrollment. 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. One option that could be considered is exempting the school debt rate from abatements provided through development incentives.

Conclusion

The *Nevada Constitution* states, “The legislature shall provide for a uniform system of common schools...” (Article 11, Section 2). School districts throughout Nevada have critical, unmet capital needs and currently have insufficient resources to fund repairs and build new schools. Existing financing tools rely largely on local funding and have not generated adequate revenue in a timely manner. In addition, the existing structure has increased disparities between school districts, given that each district has a different set of funding sources that it can use. The Nevada Legislature should consider ways to develop
and expand the financing options available to school districts to meet capital needs. The recommendations discussed in this policy brief can assist the Legislature to identify and consider flexible, comprehensive solutions that address the school facilities needs in both urban and rural school districts around the State.

About the Kenny C. Guinn Center for Policy Priorities

The Kenny C. Guinn Center for Policy Priorities is a 501(c)(3) nonprofit, bipartisan, think-do tank focused on independent, fact-based, relevant, and well-reasoned analysis of critical policy issues facing the State of Nevada and the Intermountain West. The Guinn Center engages policy-makers, experts, and the public with innovative, fact-based research and analysis to advance policy solutions, inform the public debate, and expand public engagement. The Guinn Center does not take institutional positions on policy issues.

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