

Assembly Bill 309: Analysis

Summary

Assembly Bill (AB) 309 proposes to “account for all state and local financial aid to public schools and express the total per pupil support for public schools.” The bill “authorizes the board of county commissioners of each county to impose, by two-thirds vote of the board or by a majority vote of the people at a primary, general or special election, a new sales and use tax at the rate of one-quarter of 1 percent of the gross receipts of retailers” to pay for a number of possible programs, including early childhood education, as well as homeless services and affordable housing.

Additionally, it allows the Nevada Department of Education (NDE) to distribute funds from the Account for Programs for Innovation and the Prevention of Remediation, which holds money used for “categorical” programs such as Zoom Schools and Victory Schools, to districts in the form of block grants. The payments – worth \$38.6 million over the two-year budget cycle with the bulk (\$26 million) going to the Clark County School District – are allowed to be used for teacher incentives, Nevada Ready 21 technology programs, professional development, and the purchase of library books. But they can also be used for general operational expenses.

While we support the spirit of this proposal to increase resources available to school districts, we identify some issues that warrant further consideration:

- An increased reliance on local revenue streams. AB 309 authorizes local counties to raise revenues to fund a number of programs, including several education measures. Currently, Nevada ranks among the top 10 states which are most dependent on local revenues to finance education.
- One of Nevada’s major revenue streams is the sales tax, which is regressive and vulnerable to economic downturns. Specifically, sales and use taxes (\$2.7 billion) are expected to make up the largest share (30.2 percent) of the General Fund, which is \$8.8 billion for the 2019-2021 biennium. Nevada ranks 4th-highest in sales tax collections per capita at \$1,586. Moreover, counties would not equally benefit from this provision given that they have either recently increased their local sales tax rate or they do not have a broad tax base.
- There are various educational programs and services that need (greater) funding (e.g., school safety measures, social workers, etc.); however, the bill provides a relatively small block grant to school districts.

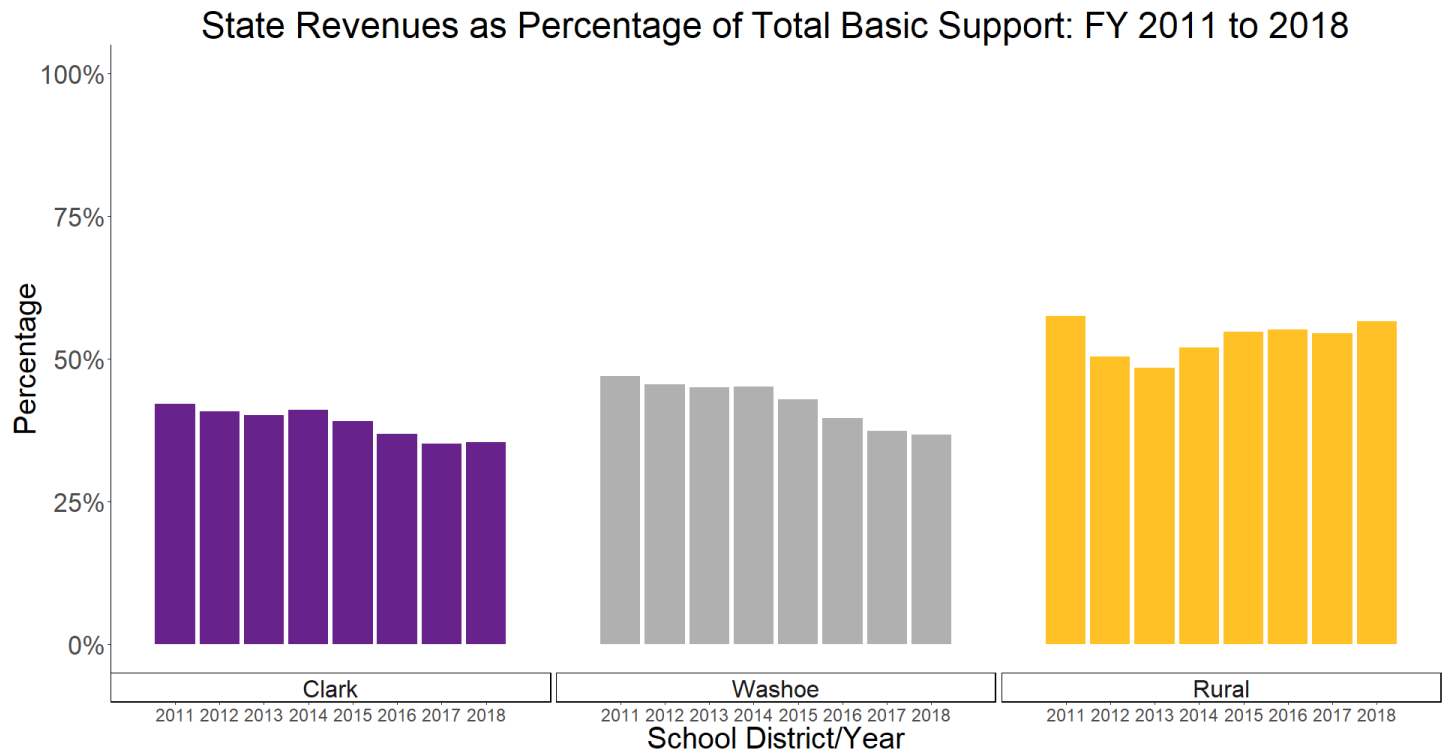
This policy brief note discusses these issues and provides additional data and analysis for each.

Nationally Greater Comparative Reliance on Local Jurisdictions to Fund Education

Both the Clark County and Washoe County School Districts are more reliant on local revenues than the remaining other fifteen school districts in the state. As noted in the Guinn Center’s recent policy brief summarizing Nevada’s K-12 Education Financing, the Nevada Plan, which combines sources of revenue, establishes a basic support guarantee for each school district. State aid is the difference between the basic support guarantee and local funds. If local revenues are higher or lower than projected, state aid is adjusted to cover the total guaranteed support. When local revenues exceed projections and the basic support guarantee, school districts can retain the additional funds and state aid is reduced subsequently. There is significant variation in the percentage of state vs. local revenue received by each school district to fund the basic support guarantee. Over the 2017-2019 biennium, the state has contributed 43 percent of the state basic support guarantee while districts contributed 57 percent of the funds.

Figure 1 illustrates that the Clark County and Washoe County School Districts have been receiving less state support than the 15 rural districts and that the state contribution to the basic support has been declining over time. Specifically, Nevada’s two urban counties receive roughly 33 percent of the basic support from state sources and about 67 percent from local sources. By providing counties with the authority to raise local revenues for education, AB 309 could result in school districts becoming more reliant on local revenue sources.

Figure 1 - State Revenues (versus Local Revenues) as a Percentage of Total Basic Support

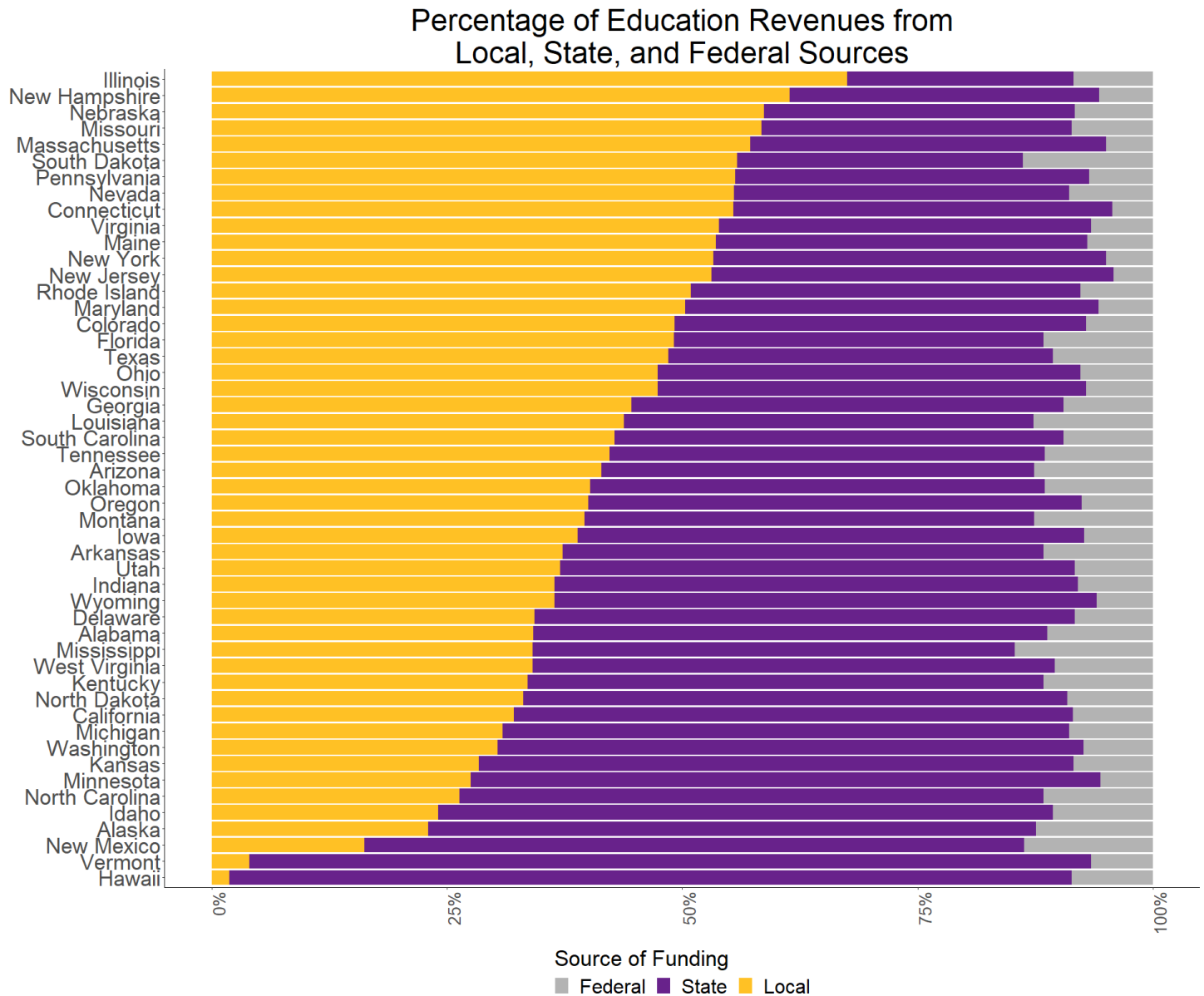


While the Clark County and Washoe County School Districts are more dependent on local revenue sources than most districts in Nevada, comparatively, Nevada is more dependent on local revenue sources to fund education than most other states (see Figure 2). Only seven states are more reliant on local revenues (defined as local property and non-property taxes – including sales taxes) than is Nevada.

Nevada is Heavily Reliant on Sales Taxes to Fund Education

AB 309 authorizes counties to raise revenues through an increase in the sales tax, specifically, as opposed to other types of taxes (e.g., property tax, live entertainment tax, etc.). Consider that Nevada’s sales tax revenues are already high. Based on fiscal year 2018 data from the Tax Foundation, with DC included, Nevada ranks 4th-highest in sales tax collections per capita at \$1,586. For comparison, Hawaii is the highest (\$2,269), and Virginia is the lowest (\$469). Contrast this with property tax revenues, and we find Nevada has a relatively low property tax burden compared to the rest of the country. Within Nevada, sales and use taxes account for \$2.7 billion in revenue, which is the largest contributor to the General Fund. Currently, sales and use taxes are expected to make up 30.2 percent of the \$8.8 billion general fund revenue for the 2019-2021 biennium.

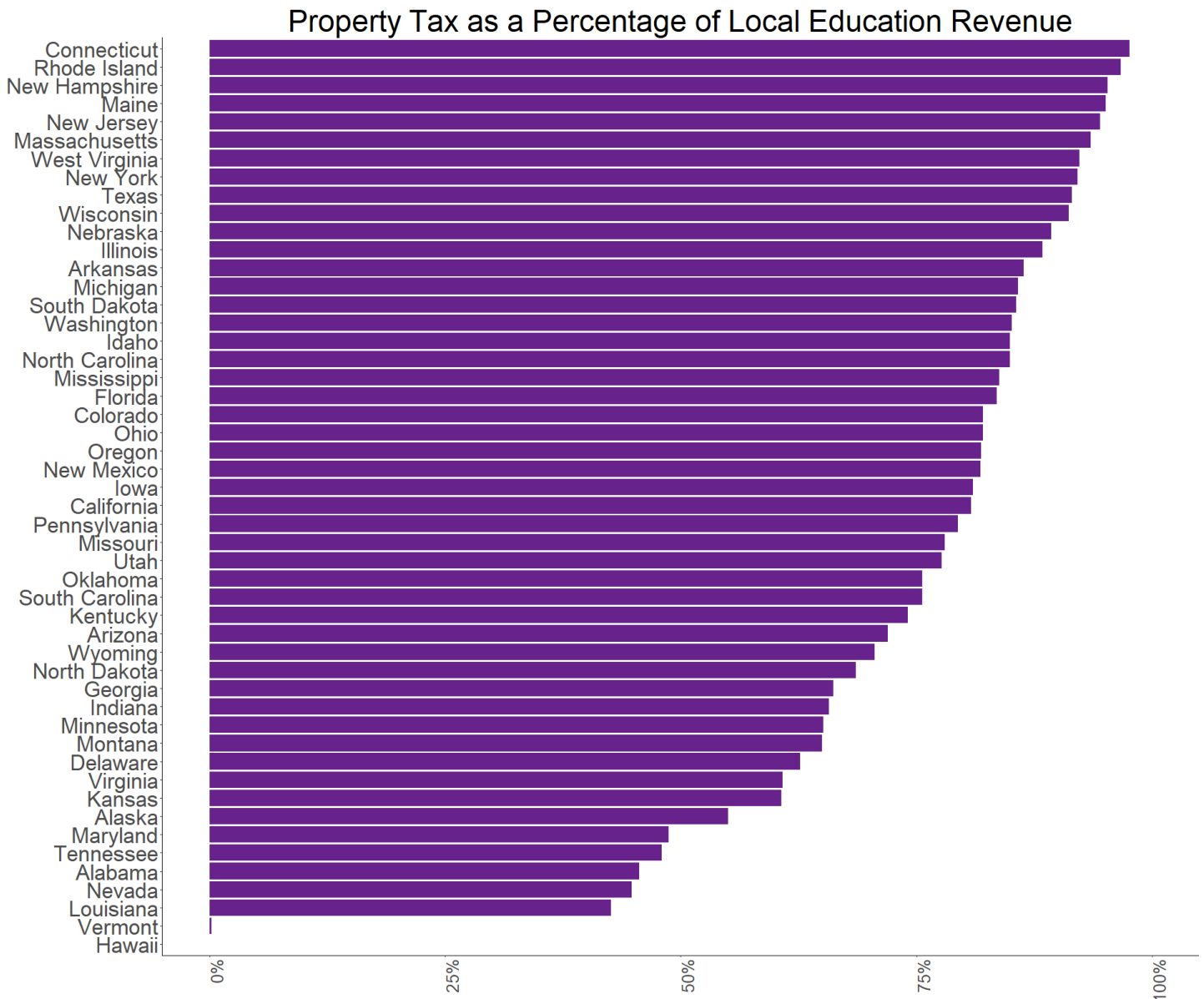
Figure 2 – Percentage of Education Revenues from Local, State, and Federal Sources



For fiscal year 2016, with DC included, Nevada ranks 37th-lowest in the nation in per capita property tax collections of \$994. And Figure 3 shows that Nevada ranks among the bottom four states that rely on property taxes (as a percentage of total local funding) to contribute to local education funding. Property taxes are a more stable revenue source for Nevada, without as much fluctuation during downturns in the economy. Additionally, as Figures 2 and 3 indicate, compared to other states, Nevada is overreliant on sales and use taxes and underreliant on property taxes.

Moreover, the sales tax is regressive, meaning that it disproportionately affects lower income individuals relative to higher income individuals. And the sales tax is vulnerable to economic cycles, (i.e., it tends to fluctuate with short- and long-term local and national economic conditions), thus making it a volatile source of revenue. This means that school districts could come to depend heavily on a somewhat unstable source of revenue. If districts estimate the sales tax collections for the upcoming year, but collections fall short of those estimates, school districts must find ways to cover the revenue shortfall. This could force districts to make budget cuts, even with increasing revenues.

Figure 3 – Property Tax as a Percentage of Local Education Revenue



Using fiscal year 2018 data, Table 1 estimates the impact of increasing the sales tax by one quarter of one percent. If the proposal were to be passed by each county, local governments could expect to realize approximately \$147 million in additional revenues. However, there is significant variation across districts: two counties would likely collect less than \$100,000, while Clark County could raise \$106 million. While Washoe County could raise an additional \$21 million, some decision makers have expressed concern that residents of Washoe County, which approved a 2016 ballot initiative to raise the sales tax rate by 0.54 percent for school facilities, may not have the appetite to raise the sales tax rate again.

No Guarantee that Sales Tax Revenues Would be Directed to Education

AB 309 authorizes counties to pay for a number of services, including: early childhood education, adult education, truancy, homelessness, development of affordable housing, and incentives for the recruitment and retention of licensed teachers for high vacancy schools.

Table 1 - Comparison of Sales Tax Collections under Assembly Bill 309

County	Current Tax Rate	AB 309 Rate	Current Fiscal YTD Taxable Sales (FY 2018)	Tax Collections (FY 2018)	Tax Collections (w/ AB 309)	Dollar Difference
Carson City	7.600%	7.850%	\$ 1,144,376,853	\$ 86,972,641	\$ 89,833,583	\$ 860,942
Churchill	7.600%	7.850%	354,371,180	26,932,210	27,818,138	885,928
Clark	8.250%	8.500%	42,569,371,984	3,511,973,189	3,618,396,619	106,423,430
Douglas	7.100%	7.350%	780,078,815	55,385,596	57,335,793	1,950,197
Elko	7.100%	7.350%	1,495,115,958	106,153,233	109,891,023	3,737,790
Esmeralda	6.850%	7.100%	13,726,094	940,237	974,553	34,315
Eureka	6.850%	7.100%	314,094,816	21,515,495	22,300,732	785,237
Humboldt	6.850%	7.100%	507,810,555	34,785,023	36,054,549	1,269,526
Lander	7.100%	7.350%	309,919,553	22,004,288	22,779,087	774,799
Lincoln	7.100%	7.350%	31,001,563	2,201,111	2,278,615	77,504
Lyon	7.100%	7.350%	490,414,813	34,819,452	36,045,489	1,226,037
Mineral	6.850%	7.100%	48,852,769	3,346,415	3,468,547	122,132
Nye	7.600%	7.850%	672,275,312	51,092,924	52,773,612	1,680,688
Pershing	7.100%	7.350%	118,013,814	8,378,981	8,674,015	295,035
Storey	7.600%	7.850%	1,275,451,338	96,934,302	100,122,930	3,188,628
Washoe	8.265%	8.515%	8,531,252,745	705,108,039	726,436,171	21,328,132
White Pine	7.725%	7.975%	291,695,358	22,533,466	23,262,705	729,238

There is no guarantee that any of the sales tax revenues generated by AB 309 would be dedicated to education, as opposed to housing. Recent data finds that the Las Vegas/Clark County metropolitan area is home to one of the largest homeless populations in the country, ranking 8th in the nation in the major city category.

Finally, we note that Section 13 of AB 309 authorizes block grants to be given to each school district and the State Public Charter School Authority. This funding, amounting to \$1.5 million for each school year (ending 2020 and 2021), can be used for several purposes, including the Great Teaching and Leading Fund, Nevada Ready 21 Technology program, purchase of library books, etc.

The bill explicitly states that the money received under this block grant, “must not be budgeted by a school district or charter school in a manner that creates any obligation or deficit for funding in any fiscal year after the fiscal years for which the money was received.” This suggests that any salary increase funded by this block grant would only be temporary (or must be able to be funded with money outside the block grant after two years).

Again, the Guinn Center understands the intention behind this proposal. However, the bill only guarantees \$1.5 million for education each school year for the 2019-2021 biennium, while also allowing counties to choose to increase local sales tax rates for additional revenue for various education and housing/homelessness programs. However, by limiting counties to consider a single revenue stream – the local sales tax – Nevada would become even more reliant on an unstable and regressive tax. Nevada’s leaders should consider whether this is the best policy option to secure revenues to address some of the greatest policy challenges facing our state.