MINUTES OF THE MEETING
OF THE
ASSEMBLY COMMITTEE ON WAYS AND MEANS
AND THE
SENATE COMMITTEE ON FINANCE
JOINT SUBCOMMITTEE ON K-12 EDUCATION/HIGHER EDUCATION

Seventy-Sixth Session
February 24, 2011

The Assembly Committee on Ways and Means and the Senate Committee on Finance, Joint Subcommittee on K-12 Education/Higher Education was called to order by Chairwoman Debbie Smith at 7:36 a.m. on Thursday, February 24, 2011, in Room 3137 of the Legislative Building, 401 South Carson Street, Carson City, Nevada. The meeting was videoconferenced to Room 4406 of the Grant Sawyer State Office Building, 555 East Washington Avenue, Las Vegas, Nevada. Copies of the minutes, including the Agenda (Exhibit A), the Attendance Roster (Exhibit B), and other substantive exhibits, are available and on file in the Research Library of the Legislative Counsel Bureau and on the Nevada Legislature's website at www.leg.state.nv.us/76th2011/committees/. In addition, copies of the audio record may be purchased through the Legislative Counsel Bureau's Publications Office (email: publications@lcb.state.nv.us; telephone: 775-684-6835).

ASSEMBLY SUBCOMMITTEE MEMBERS PRESENT:

Assemblywoman Debbie Smith, Chairwoman
Assemblyman Marcus Conklin, Vice Chair
Assemblyman Paul Aizley
Assemblyman Tom Grady
Assemblyman Pat Hickey
Assemblywoman April Mastroluca
Assemblyman John Oceguera

SENATE SUBCOMMITTEE MEMBERS PRESENT:

Senator Steven A. Horsford, Chair
Senator Moises (Mo) Denis, Vice Chair
Senator Barbara K. Cegavske
Senator Ben Kieckhefer

STAFF MEMBERS PRESENT:

Rick Combs, Assembly Fiscal Analyst
Rex Goodman, Principal Deputy Fiscal Analyst
Joi Davis, Senior Program Analyst
Julie Waller, Program Analyst
Janice Wright, Committee Secretary
Cynthia Wyett, Committee Assistant

Chairwoman Smith convened the hearing and reminded everyone that the electronic exhibits were available on the Nevada Electronic Legislative Information System (NELIS).

DEPARTMENT OF EDUCATION
NDE-DISTRIBUTIVE SCHOOL ACCOUNT (101-2610)
BUDGET PAGE K-12 EDUCATION-1

Keith W. Rheault, Ph.D., Superintendent of Public Instruction, Department of Education, introduced his staff and said he would provide updated details about the amounts available for distribution to the Fiscal Analysis Division staff.

Roger M. Rahming, MBA, Director, Office of Fiscal Accountability, Department of Education, presented Exhibit C, "The K-12 School System Budget 2011-2013." He explained the K-12 (kindergarten through grade 12) budgets consisted of 4 budgets with 26 programs. The largest was budget account (BA) 2610 that contained the basic support, class-size reduction, and adult education, and comprised the largest dollar amount for the Distributive School Account (DSA). Budget account 2615, the School Remediation Trust Fund, funded full-day kindergarten. The BA 2616 contained the Incentives for Licensed Education Personnel and BA 2699 contained Other State Education Programs.

Mr. Rahming spoke about BA 2610, the Distributive School Account, that included the following 11 programs:

- Basic Support for Public Schools [the largest program].
- Adult High School Diploma.
- School Lunch State Match.
- Class-Size Reduction [including At-Risk Kindergarten].
- Gifted and Talented program.

- Early Childhood Education.
- Elementary Counselors.
- School Library Media Specialists.
- Special Transportation [just for Lyon County].
- Professional Development program.
- Remediation Trust Fund.

Mr. Rahming explained the budget included a 1 percent "step-on-scale" salary increase from fiscal year (FY) 2011 and a roll-up of 2 percent for both FY 2012 and FY 2013. The total of all decision units for the basic support was $2,081,061,165 in FY 2012 and $2,087,663,685 in FY 2013. The student-related operating costs, including textbooks, instructional and other supplies, instructional software, library supplies, and equipment remained unchanged at the FY 2010 actual cost per student with no inflation factor. The utility costs remained unchanged at the FY 2010 actual cost per square foot.

Mr. Rahming discussed the "Nevada Plan" revenues that showed a slight increase of the Local School Support Tax (LSST) from $872,948,748 in FY 2010 to $888,433,910 for FY 2011. The revenue decrease between FY 2011 and FY 2012 was a result of the sunset of a portion of the sales tax rate [granted during the 26th Special Session] moving the rate from 2.6 percent to 2.25 percent. The property tax showed a continual decrease in revenue from FY 2010 through FY 2012. He said the Department of Taxation would provide updated figures in March.

Mr. Rahming explained that the "Nevada Plan" revenue was money that the state guaranteed to the local school districts. Whether or not there was a decrease in these amounts, the state would guarantee these funds to the local school districts. The other revenues included in the calculation were called "outside revenues" that meant outside the Nevada Plan. The largest portion of the outside revenues was the property tax, which was the two-thirds portion of the property tax rate. The state did not guarantee that property tax. The Governmental Services Tax [the Department of Motor Vehicles tax] would decline slightly. The franchise tax was increasing slightly but did not contribute a large amount to the fund.

Mr. Rahming testified about the other state revenue changes for the DSA. The slot tax was not projected to change much. The interest on the Permanent School Fund decreased 28.05 percent in FY 2012 from the FY 2010 amount, but stayed consistent with the FY 2011 work program authority. The out-of-state Local School Support Tax (LSST) was driven by the same sunsetting of the rates from 2.6 percent to 2.25 percent.

Mr. Rahming spoke about decision unit Maintenance (M) 200 that contained the enrollment growth. To protect districts during times of declining enrollment, the Nevada Plan included a "hold-harmless" provision. Since FY 2002, the hold-harmless provision provided that enrollment must be based upon the larger of the current year's enrollment, or that of either of the previous two years. The 74th Session (2007) amended the hold-harmless provision, beginning in FY 2009, to provide for a one-year hold-harmless period, except for districts with enrollments declining 5 percent or more, which would be allowed a two-year hold–harmless period. In FY 2010 there were 4,100 students [or payments], from 9 districts and 7 charter schools that qualified for the hold-harmless provision. In FY 2011 there were 422,569.6 students, not including students on the hold-harmless provision. All but the Elko County and Clark County School Districts were on hold-harmless this year. The recommended budget included an increase in expenditures of $3,470,101 in FY 2012 and $10,500,121 in FY 2013.

Mr. Rahming said decision unit M200 enrollment growth for the class-size reduction applied to grades 1 through 3 and funded teachers at a ratio of 16:1 for grades 1 and 2 and a ratio of 19:1 for grade 3. The algorithm funded 2,098 positions in FY 2011, 2,127 positions in FY 2012, and 2,144 positions in FY 2013. The budget effect was $318,915 in FY 2012 and $1,318,467 in FY 2013. The Special Education enrollment growth remained flat in decision unit M200 for the 2011-2013 biennium and funded 3,049 units at $39,768 each for a total of $121,252,632 as a result of the federal maintenance of effort (MOE) requirements. The number of units would be affected by enrollment growth and the dollars funded per unit would be affected by the other decision units as they related to salaries and full-time equivalent (FTE) positions. The Department requested no change because of the federal MOE. The Department understood that any budget reduction would reduce the federal funds received on a 1:1 ratio.

Mr. Rahming commented that decision unit M200 showed some enrollment growth for the adult high school diploma program, and the financial effect was $1,757,961 in FY 2012 and $3,342,257 in FY 2013. The enrollment was projected to increase by 6 percent from FY 2012 to FY 2013. He said the Gifted and Talented units increased by $252 over FY 2010 actual expenditures and $780 for FY 2013 over the FY 2012 budget because of enrollment growth.

Early Childhood Education was funded at $3.3 million and would increase by $4,916 for FY 2012 over FY 2010 actual expenditures and $14,939 for FY 2013 over FY 2012. In summary, the total cost of decision unit M200 was $5,552,146 for FY 2012 and $15,176,567 for FY 2013.

Mr. Rahming testified that decision unit M300 contained the increased rate of the Public Employees' Retirement System (PERS) assessment from 21.5 percent to 23.75 percent and the corresponding 5 percent decrease of salary [fringe benefits were calculated as a percentage of salary]. Decision unit M300 also included the unemployment insurance increase of 52 percent. This was consistent with what was charged to state agencies. The health insurance expenditures were based on a per-employee rate that remained unchanged for the 2011-2013 biennium. The fringe benefits increase would cost an additional $20,655,617 in FY 2012 and $21,127,781 in FY 2013. Decision unit M300 dollar cost increases to each of the programs in BA 2610 was shown below:

Program	**FY 2012**	**FY 2013**
DSA Basic Support	$19,415,365	$19,844,182
Adult Education	177,253	192,444
Class-size reduction	1,034,298	1,061,880
CSR At Risk Kindergarten Teachers	28,701	29,275
Total	**$20,655,617**	**$21,127,781**

The above figures do not include Special Education because funding for that program remained unchanged from the 2009-2011 biennium.

Mr. Rahming explained decision unit Enhancement (E) 601 reflected the Public Employees' Retirement System (PERS) equalization and applied a pay factor equal to one-half of the rate charged to state employees on the Employer-Paid PERS schedule. The pay factor for state employees was 89.385 percent and pay was reduced by 10.615 percent for the employee contribution to PERS. The pay factor proposed for K-12 employees was 94.6925 percent, which was only 50 percent of the PERS contribution. A state employee paid one-half of their retirement and the K-12 employee would pay one-quarter of their retirement. The net effect of decision unit E601 would be a savings of $100,289,928 in FY 2012 and $100,614,849 in FY 2013. He referred to the table on page 18 of Exhibit C for the specific savings for each program.

Mr. Rahming spoke about the decision unit E670 salary reduction, which included a 5 percent salary reduction for the 2011-2013 biennium, consistent with the calculations used for state employees. The financial effect of decision unit E670 was a savings of $126,965,594 in FY 2012 and $129,582,949 in FY 2013. He referred to the table on page 20 of Exhibit C for the specific adjustments for each program.

Mr. Rahming discussed decision unit E671 that contained the suspension of merit salary increases. There was a temporary suspension of the 2 percent "roll-ups" for the 2011-2013 biennium. These roll-ups accounted for increases on pay scales resulting from experience and additional education and were consistent with the suspension of step increases for state employees. The financial effect of E671 was a net savings of $46,762,229 in FY 2012 and 94,616,804 in FY 2013. The amount increased because the 2 percent per year was compounded and the 5 percent salary cut was imposed for FY 2012 and held flat for FY 2013. The Department would seek a supplemental appropriation of approximately $140,833,874 million for FY 2011 because expenditures exceeded revenue projections. Part of this was because the Department borrowed money from FY 2011 and must repay that amount. A total of $69,080,821 was transferred from FY 2011 to FY 2010 because of the revenue shortfall. The supplemental appropriation would also offset a decline in the LSST collections and the guaranteed portion of the public school operating property tax for FY 2011.

Mr. Rahming said the basic support amounts were $2,206,615,525 for FY 2010, $2,201,166,405 for FY 2011, $2,081,061,165 for FY 2012, and $2,087,663,685 for FY 2013. The number for the basic support per pupil was $5,186 for FY 2010, $5,192 for FY 2011, $4,918 for FY 2012, and $4,918 for FY 2013. The decrease was 5.17 percent for the FY 2012 basic support compared to the FY 2010 basic support.

Mr. Rahming testified decision unit E602 contained the proposal to transfer $212,500,000 per year in excess debt service reserves from the debt service funds to the DSA. The *Nevada Revised Statutes* (NRS) 350.020 required the reserves to equal the lesser of 10 percent outstanding debt or one year of debt service payments. A bill draft request (BDR) would be submitted to reduce the reserve threshold to a six-month amount of the debt payments and transfer the remainder to the DSA. When the LSST exceeded the forecast used in the budget, the districts would be allowed to keep the excess to restore those debt service funds.

Mr. Rahming explained that another BDR would be submitted to remove the minimum textbook expenditure requirement to provide greater flexibility to the districts during this challenging financial period.

Dr. Rheault commented that he appreciated that The Executive Budget had retained funding for the Special Education maintenance of effort (MOE) unit. He said that states could apply to the United States Department of Education (USDE) for waivers under extreme hardship circumstances. Only two states had been approved for waivers. The USDE would allow those states to drop below that MOE level. He strongly discouraged seeking a waiver and would not support the use of the waiver. When a waiver was granted, the state must repay the amount the next year. The waiver did not exempt the state from providing services to the Special Education students, and the school districts were still responsible for providing all the services of individualized education programs (IEPs). The waiver was really a false waiver, and he was glad to see the budget funded the MOE requirements.

Senator Cegavske asked where Nevada ranked in regard to federal funding and Dr. Rheault replied Nevada received 17 percent of its education costs from federal funding. The percentage had remained stable for the last six to eight years.

Chairwoman Smith asked for public comment about the major issues in the DSA budget. She wanted to start with the debt reserve matter, because it was such a large funding piece in the DSA.

Heidi Gansert, Chief of Staff, Office of the Governor, testified about the calculations for the debt reserve. The original budget was about $440 million short for the state contribution for the DSA. She and the Budget Division staff looked at all sources of funds to develop a method to mitigate the cuts and get more money to the classrooms. They looked at the capital account but realized it contained transfers out to a bond reserve account. They started investigating the bond reserve account to determine the possibility of mitigating the cuts and repurposing the funds. They talked to bond counsel and legal counsel about the bond reserve account. The reserve account was separate from the capital account and was not related to construction. The account was established by statute in 1997 to hold one-year's worth of debt service. The account was receiving various sources of revenues and the funds were not being used. What was important about that money was that various streams of revenue were coming into the fund, including property tax, governmental services tax, and transfers coming from the capital account.

Mrs. Gansert explained the capital account received revenue from various sources including the bond account, governmental services tax, the real estate transfer tax, donations, the room tax, reimbursements, rental facilities, other local sources, and investment income. When general obligation bonds were issued, reserves were set aside for repayment of the debt service. No bond covenants restricted the use of the reserve funds. The only limitation was the statutes. This reserve account was not approved by the voters.

Mrs. Gansert requested the Clark County School District project the amount of funds in its reserve account and the original projection was roughly $400 million and that figure grew to about $425 million including the different reserve accounts. The Budget Division looked at the ending fund balances. They looked at revenue streams coming into the various capital accounts in the school districts. There were 12 different school districts that had reserve accounts, including Clark County and Washoe County. The staff developed a projection that $425 million would be available given the historical flow into these accounts.

Chairwoman Smith said there was a combination of funds including some legislatively approved and some voter-approved streams of revenue that flowed into the reserve accounts. Voter-approved bond money flowed into the capital accounts.

Mrs. Gansert said there were no voter-approved bond revenues deposited in the reserve account. There were funds coming in from various revenue streams that went into the capital account and some of that revenue was transferred into the reserve accounts. There were two separate accounts.

Chairwoman Smith said she believed that it was a philosophical or policy discussion. There were two separate ways that the accounts were created in Clark County and one was with legislatively approved money for school construction and some was voter-approved money. She preferred to focus on the amount of money that was available. The Fiscal Analysis Division staff had determined the amount of money projected in The Executive Budget was not available and Chairwoman Smith asked for Mrs. Gansert's latest projection of available funds.

Mrs. Gansert replied the figures used in The Executive Budget were based on the historical financial reports. She believed those numbers were accurate and $425 million was available and that would still leave 50 percent available as a debt reserve for the school districts.

Chairwoman Smith said the $300 million that was originally estimated was not correct according to the Fiscal Analysis Division staff, which examined the formula and fund balances.

Mrs. Gansert responded that the Clark County amount was based on conversations with the Clark County School District staff. Clark County originally estimated $400 million was available and requested the Governor's staff look at debt reserve accounts in other counties. When Mrs. Gansert looked at the other counties she recognized there was probably as much as $140 million from the other counties so she reduced the Clark County amount. It was her understanding at the time and after several conversations with Clark County that the $300 million would be available for diversion and she could use those bond reserves.

Chairwoman Smith said her frustration was that the Fiscal Analysis Division staff calculated a different amount. The Subcommittee would hear later from the school districts. There did not appear to be a formula applied to achieve this dollar figure. The $300 million seemed to be an arbitrary figure. She was curious as to when Mrs. Gansert would have concrete information about the amount she anticipated would be available.

Mrs. Gansert responded that she had several conversations with the Clark County School District (CCSD) and a meeting with the Clark County Superintendent and various members of his staff. The Budget Division staff, including Julia Teska from the Budget Division, had several conversations with CCSD financial staff to ensure that the $300 million was available. Mrs. Gansert knew that other numbers had been proposed. She developed her numbers based on CCSD's financial statements. She had asked for five years of data. When she examined the revenues deposited in the debt service reserve account for FY 2010, the actual amount was $445 million. The budgeted amount was projected to drop to $351 million for FY 2011, $365 million for FY 2012, and $380 million for FY 2013. The revenue projections had decreased. She needed to reconcile the recent numbers provided by CCSD and she had not been able to do that as yet.

Chairwoman Smith said the Subcommittee needed those figures right away because it was a big portion of the budget. The forecasts of the Fiscal staff were about $99 million, and that was about $300 million less than Mrs. Gansert's projection of $400 million. Chairwoman Smith wanted to hear from the smaller school districts and the financial advisors about their recommendations. The Subcommittee was also concerned about the effect on the bond rating. She urged Mrs. Gansert to provide data as soon as possible.

Mrs. Gansert replied that when she talked to CCSD about this reserve account, she asked when CCSD would use that money, would there be additional expenses, would CCSD have to restructure debt, or would it cost more money. The CCSD responded no, it would not incur any additional expenses. It was already looking at restructuring its debt. Mrs. Gansert was concerned about the cost of diverting the reserves and the availability of reserves and, therefore, proceeded cautiously in putting this proposal in the budget. The Governor believed it was vital to get as much money as possible into the classroom. These funds would stay within the county of origin. The proposal would include a trigger to replenish this money when LSST exceeded the Economic Forum projections.

In response to a question from Chairwoman Smith, Mrs. Gansert clarified that the bill draft request (BDR) included an automatic trigger to replenish the school district reserve account when LSST exceeded the Economic Forum projection. The Governor was open to suggestions from the districts as to how to replenish that money. But she wanted to make sure that money was replenished to the county of origin.

Chairwoman Smith asked Mrs. Gansert to follow up on that because she did not see that in the language of the BDR. Mrs. Gansert agreed to do so.

Senator Cegavske asked about the history of the debt service reserves and what the funding mechanisms were. She wondered whether the Legislature or school districts determined what money went into the reserves.

Mrs. Gansert replied that CCSD had two funds. The capital account was used for construction, maintenance, and renovations. The account received governmental services tax, donations, grants, real estate transfer tax, room tax, rental of facilities funds, local sources of revenue, investment income, and proceeds from sales of CCSD property. All those revenue sources went into the capital account. The CCSD then transferred out a blend of money to the bond reserve account. The bond reserve account contained property taxes, other local government taxes, investment income, and other local revenues. A blend of different types of money was deposited into the accounts, in addition to the voter-approved money.

Senator Horsford asked about the timing of a request from the Budget Division for each school district to provide its debt service fund projections. Julia Teska responded that request was made at the beginning of February, 2011. The Division had received most of the responses and that information was what she would reconcile to the projections she originally made. There were some discrepancies and she was trying to work through that now.

Senator Horsford asked about the beginning balance for those school districts that had responded. He said Clark County was the biggest piece of this because it contributed $300 million of a $425 million amount. Senator Horsford continued and stated that to maintain a balanced budget the Budget Division must reconcile whether or not the estimates provided by each school district were accurate. *Nevada Revised Statutes* (NRS) 350.020 addressed the reserve requirement. The Executive Budget reduced the reserve requirement to the lesser of the amount of six months of principal and interest payments due on all of the outstanding bonds of the school district in the next fiscal year or 10 percent of the principal amount of the outstanding bonds of the school district.

Senator Horsford continued by asking about the ending fund balance of each of the two debt accounts after the account was reduced by the debt service payments and increased by the revenue deposits, based on the information provided by Clark County.

Ms. Teska said she did not have those figures with her but wondered whether Senator Horsford was asking about CCSD's projections. Senator Horsford clarified he wanted the projections provided to the Budget Division by CCSD. He continued by saying he wanted the information provided by CCSD that showed what the beginning balance was, what the projected revenues were, and what the anticipated debt service would be. Based on that information, he asked for the amount CCSD projected would be available.

Ms. Teska responded that she did not have that figure but would provide it. She said the $300 million figure came from CCSD that originally stated it was comfortable with $400 million but wanted the Budget Division to look at other school districts. The indication from CCSD in December was it was looking to restructure its debt and it could accommodate the $300 million diversion from the reserves.

Senator Horsford said it was the Governor's job to present The Executive Budget. The Budget Division must verify whatever numbers it provided to the Legislature. The Governor and his staff stated they had presented a balanced budget. Senator Horsford asked what was the available ending fund balance in the debt reserve fund based on the information provided to the Governor through the Budget Division.

Mrs. Gansert stated she received five years of the history for the two bond accounts from CCSD showing FY 2006 through FY 2011 and she projected FY 2012 and FY 2013 for the capital account. She requested more information on the debt service reserve account. She said the actual ending balance in FY 2010 was $479 million in the bond reserve account and $700 million in the capital account. Adding both of those together resulted in a total of $1.18 billion between the capital and the bond reserve account. The capital account was used to transfer some money into the bond reserve account. The CCSD budgeted expenditures from the capital account of $421 million for FY 2011. About $2.6 billion was spent between FY 2006 and FY 2010 in the capital account. The ending fund balance for FY 2010 had decreased to $275 million but was budgeted at $421 million for FY 2011. The CCSD was spending about $275 in FY 2010 and had an ending fund balance of about $700 million. The CCSD projected to spend about $421 million and would have an ending fund balance in the capital account of $355 million in FY 2011. The bond reserve account decreased from the actual FY 2010 ending balance of about $480 million to about $361 million in FY 2011.

Senator Horsford said he was familiar with the historical projection and the five-year projection reflected the large increases in FY 2006 and FY 2007, when Nevada was at the height of its economy and property tax collections and property values were up. Senator Horsford wanted to know the ending fund balance and the projections for this budget. He said Mrs. Gansert reviewed the budget sheets for the debt service accounts and provided him the historical data. He was asking for the projections for the next two years.

Mrs. Gansert said FY 2010 showed over $1.18 billion as the ending fund balance for the two accounts. The budget for the ending fund balance for

FY 2011 was about $712 million, for FY 2012 about $520 million, and for FY 2013 about $500 million.

Senator Horsford said he believed those figures were before expenditures and before debt service payments had been subtracted. Mrs. Gansert responded that those figures were after the all expenditures and debt service payments had been made. She provided the combined ending fund balance for the two accounts, the capital account and the bond reserve account.

Senator Horsford reiterated the ending fund balance was before debt service. The debt service payments were made after the ending fund balance was calculated. The ending fund balance for FY 2013 for one account had one number and after debt service the balance would decrease.

Mrs. Gansert said she provided the CCSD ending fund balance after debt service for FY 2010 through FY 2013. In FY 2010 the ending fund balance was $479 million, the income was $351 million, and principal, interest, purchase cost, and bond issuance was $572 million. There were some transfers in and other financing sources of about $103 million. The net fund change decreased about $117 million, making the total about $361 million. The figures she provided were after debt payments had been made including principal and interest on the bonds. The ending fund balance was $361 million for FY 2011.

Senator Horsford said he would ask CCSD because Mrs. Gansert's numbers were not the numbers he had been provided. It was the Governor's responsibility to review and analyze those figures to determine whether those were accurate, based on what the Governor submitted to the Legislature. The school districts did not submit budgets to the Legislature.

Senator Horsford asked whether or not Mrs. Gansert was aware of the fact that the CCSD bond rating had been downgraded in part because of the ongoing cuts to education and the bond rating could be affected based on the Governor's approach to divert reserve funds. He wondered whether that was evaluated prior to making this proposal.

Mrs. Gansert said that the downgrade of the bond rating was recent news that was not taken into account at the time the budget was built. She commented that whenever a rating agency studied the bond rating, it studied a number of variables including spending patterns, debt service, and other related matters.

Senator Horsford asked whether or not there had been consultation with the bond counsel prior to including the proposal in the budget. Mrs. Gansert affirmed the Governor's Office had consulted at least twice with bond counsel prior to including this proposal in the budget. Bond counsel was consulted about whether the diversion could be done and what the effect would be. The bond counsel answer was hypothetical because they were not sure what may occur, but those questions were asked. Bond counsel confirmed to the Governor that the funds were available for diversion, it was possible, and it could be done.

Jeff Weiler, Chief Financial Officer, Clark County School District, testified CCSD had a very complicated capital structure. It was easy to take parts of the structure in isolation without looking at the whole. He had done a lot of research and analysis. In 1997 the Legislature authorized CCSD to establish the capital program. The total of $1.18 million that had been discussed was the amount in two separate funds, the bond reserve fund and the capital projects fund where bond proceeds and other revenues were deposited. That was where CCSD spent proceeds to complete the capital construction projects.

Mr. Weiler continued and said in discussion with the Governor's staff in January, CCSD indicated that bond proceeds and other capital revenues were not feasible to divert to other purposes primarily because the funds were all bond proceeds. Any other use of that money for other purposes would require CCSD to refinance those as working capital loans that would make them taxable. He focused on the debt service fund and what was necessary to pay the principal and interest for bonds issued. Revenues deposited into the capital account included the CCSD debt property tax rate of $.5534, transfers of the room tax, and transfers of the real property transfer tax (RPTT) rate. In the healthy economic times of 2006, CCSD was collecting more in room tax and RPTT than was needed to service its debt. Not all the room tax and the RPTT were transferred during those times. Of late, during the last several years, CCSD had transferred all the room tax and RPTT into debt services because the debt service was at least equal to and was starting to exceed those revenue sources.

Mr. Weiler continued by explaining the debt service reserve requirement was established by statute to retain the next year's debt payments. The reserves must be used to pay debt service unless the Legislature made a statutory change. The CCSD was unable to use those funds for any other purpose. The reserve was established to protect the District during poor economic times such as were experienced now, when property tax revenues, RPTT, and room tax were not sufficient to cover the debt service needs. The CCSD had $479 million in the debt service fund at the end of FY 2010. The CCSD's projected ending fund balance would be $475 million at the end of FY 2011, $369 million at the end of FY 2011, and $264 million at the end of FY 2012. The balance would go down to zero by the end of FY 2016.

Mr. Weiler stated CCSD projected a 10.5 percent reduction for FY 2011 for property tax revenues and projected no growth after FY 2012. When CCSD issued new bonds [which it did not anticipate in the near future], it used similar projections and did not project growth in property tax revenues in the future. The CCSD's bond rating was downgraded by Fitch and by Moody's. The other rating agency was Standard and Poor's which listed a negative outlook for CCSD. The downgraded rating resulted from a number of factors including decreased revenue collections, not just the cuts to education. The CCSD provided detailed information to the Governor's Office and the Fiscal Analysis Division about its projections.

Chairwoman Smith asked for Mr. Weiler's estimate of the amount available to divert to operating purposes. In a previous hearing, Mr. Weiler had commented he could not access the funds in the debt reserve account because he needed that to pay the debt.

Mr. Weiler said CCSD would deplete the debt service reserve account balance by FY 2016. There was a $369 million ending fund balance for FY 2011. The CCSD had on-going debt service requirements extending out many years and must plan to cover all future debt so he answered that those funds were not available.

In response to a question from Chairwoman Smith, Mr. Weiler replied that if the $300 million was diverted over the 2011-2013 biennium, CCSD projected that by FY 2013 the debt service balance would begin going negative. The CCSD would need to either increase the property tax debt rate or need to complete a noneconomic restructuring extending principal and interest payments out ten years to allow property tax growth to repay the debt. The CCSD had never completed a noneconomic restructuring before, but it was possible to do so.

Chairwoman Smith asked whether the statute would require CCSD to increase property tax to meet the debt obligation under those circumstances. Mr. Weiler responded CCSD would be required to increase its property tax rate to meet the reserve requirements. The bond holders would be relying on the statute and knew that the property tax rate could increase to cover the debt service payments if needed.

Carolyn Edwards, President of the Clark County Board of School Trustees, testified that if the $300 million was taken out of the debt service reserve fund, CCSD would have to either raise taxes or extend the length of the debt obligations. The property tax rate would increase because the debt rate that would have sunsetted would have to be extended five to ten years. The diversion would eliminate CCSD's ability to issue new bonds. Within 5 years, 50 percent of CCSD's schools would be 20 years old or older, and some of its schools would be over 100 years old. The District projected needs of $4.9 billion just to maintain its current buildings. If CCSD was unable to issue another bond, all of the District's assets would be in jeopardy.

Ms. Edwards heard from her constituents that they were not in support of the diversion of the reserve funds. They understood the fiscal jeopardy that would result. After the diversion, it would be highly unlikely for CCSD to pass a future bond proposal. In 1998 she worked for CCSD's bond campaign and heard voters say the District failed to comply with what it said it would do in 1988. The voters had long memories and would not forget when the District failed to comply with its original intentions. As an elected official she could not allow the undermining of the fiscal integrity of CCSD to ameliorate the fiscal solvency of the state. The CCSD Board of School Trustees had taken a position to oppose the proposal to take the bond reserves and a formal resolution would be provided.

Senator Kieckhefer said his impression of what happened was that the Governor's staff was preparing a budget and came to CCSD and asked to look at the capital bond account. The CCSD may have said the capital bond account was not feasible to use but there was this other account that contained the reserves. Then the discussion continued that over the course of the next several years, there was an ending fund reserve projected of about $720 million between those two accounts combined. He asked whether there was a discussion during which CCSD indicated it was already looking at refinancing this debt so that this would be a feasible account to consider.

Mr. Weiler said CCSD did not indicate it would refinance its bonds. The CCSD provided the Governor's staff projections that showed the District's debt service fund balance would decrease and that CCSD would need to use all its funds.

There may have been an assumption that CCSD would need to restructure, but CCSD never said it would restructure. The Governor's staff could see that the debt service expenditures were going to exceed the underlying revenues in the future. The CCSD would not have to restructure based on its current projections.

Senator Cegavske asked when the bond payments would be completed and in what year would the last payment be made. Mr. Weiler said there were two types of bonds that must be repaid, bonds supported by property tax and bonds supported by RPTT. The final bond payments would be made in FY 2027.

Senator Cegavske asked whether there was anything else that CCSD was planning on building with those funds. She wondered whether CCSD planned to build a new bus yard.

Jeff Weiler responded that in 1998 the voters approved bonds that included two bus yard projects. One bus yard had been constructed and another was still being planned. That money was still reserved and totaled about $40 million.

Assemblyman Aizley asked when the debt service account balance dropped to zero would state property taxes be raised. Mr. Weiler replied that only Clark County property taxes would be raised. The CCSD currently had a property tax debt rate of $.5534 per $100 of assessed value.

In response to a question from Senator Denis, Mr. Weiler replied that the consequences of a lower bond rating meant that when CCSD tried to issue bonds in the future, it would pay higher interest rates. When the credit rating was lower, more interest was paid. The CCSD was rated AA- by one rating agency and rated AA by the other rating agency. When a government agency dropped below the AA category, the financial advisors and the market would make it more costly to sell bonds. The CCSD was not planning to issue new bonds. The CCSD was unable to issue new bonds because it did not have the capacity to repay in the approved property tax debt rate. The CCSD could request an extension of the property tax debt rate from the voters.

Senator Horsford asked if the Governor's plan was approved and the reserve was swept, how much would property taxes need to increase. Mr. Weiler said the property tax rate would increase about $.20, raising the school debt rate from $.5534 to $.7534 per $100 of assessed valuation. Senator Horsford recalled the wording of the CCSD bond question, which required statutory disclosure. He believed the voters had proper information prior to making a decision to support the bond question. Senator Horsford wondered if the Legislature changed the statutory portion and created the risk that bond reserves could be swept to offset the operating costs, could that action create a precedent for how future local government bond ratings would be determined.

Carolyn Edwards responded she asked that question of CCSD bond counsel last week. Bond counsel responded that the situation was hypothetical. Once it happened it was likely that the risk would affect the District's bond rating. The action could put the District in significant jeopardy.

Senator Horsford said CCSD would be forced to increase property taxes and wanted to know the effect. Senator Horsford wanted to know the cost if CCSD needed to refinance.

Mr. Weiler said the CCSD cost would probably double and would have to be funded from the underlying revenue source, primarily property tax.

Senator Horsford said either CCSD would increase the property tax to comply with the existing terms of the debt repayment, or the District would double its bond cost to extend bond maturities. The proposal to sweep these funds from CCSD reserves would start a series of events that could lead to higher interest payments and higher taxes on residences and businesses. Ms. Edwards concurred with Senator Horsford's assessment.

Martin Johnson, JNA Consulting Group, LLC, was the financial advisor to various Nevada school districts that had current authority to issue rollover bonds. All school districts were in different financial situations. Some districts only deposited property tax revenues and interest earnings into the debt service account. Those property tax revenues were generated by the property tax rate authorized by voters. Other districts deposited proceeds of different types of bonds in the debt service fund. Some districts transferred money in from a capital projects fund which served as a pass-through account because those districts wrote checks from their reserve accounts. The effect of taking 50 percent of the money in the reserve account affected districts differently. Depending on how the diversion proposal was enacted, it could result in districts with bonding authority being unable to meet the bond criteria because of uncertainty of the revenues. Some districts may expect to use revenues to pay bonds that are no longer available because the revenue would be swept into the General Fund.

Chairwoman Smith asked for clarification on whether Mr. Johnson was only talking about voter-approved bond money in the counties that he represented. Mr. Johnson confirmed that CCSD was the only district able to receive the RPTT and the room tax. No other district was able to receive those funds. He believed the $425 million figure was higher than what would be available.

Chairwoman Smith said she heard that if the reserve requirements were lowered, the Washoe County School District (WCSD) would be able to access some of the reserve funds for school construction. Each district should be evaluated based on its debt.

Mr. Johnson said there were other districts that were in a similar situation as CCSD where property tax revenues were less than debt service and the debt service fund balance at the end of FY 2011, FY 2012, and FY 2013 would be less than the balance on June 30, 2010. He confirmed that each district projected property taxes separately. There was no statewide agency that projected what property tax revenues would be available for the districts. On February 15, the districts would receive preliminary estimates of the FY 2012 assessed valuations, another projection would be received on March 15, and the final property tax revenue projections would be received on March 25. The districts used those numbers to make assumptions about future revenues. He commented some revenues were not increasing and some were decreasing.

Chairwoman Smith asked the districts to discuss the effects of salary reductions and provide clarification.

William E. "Rob" Roberts, Ed. D., Superintendent, Nye County School District, testified that currently the District had three bond projects underway in Nye County. The District was the largest employer in the county and had the largest governmental construction projects being built. The District had planned to build a school in Tonopah and the District was in the process of going out to bid. That project would have to be put on hold now because the District would not have the funds to pay its debt.

Dr. Roberts said there was a quick poll from the Legislative Counsel Bureau that was received two weeks ago requesting input from the districts. It asked what the effect would be on teacher population if no school district association would agree to any waiver to salary step increases. In other words, how many teachers would a district have to lay off if no concessions were given by the unions? Nye County School District would lose 53 teachers, Elko 53, Douglas 53, Carson City 54, Mineral County 8, White Pine 6, Pershing 4, and Lincoln 4 in FY 2012 and 8 in FY 2013. Consequently the number of students in a classroom would increase and exceed the limits authorized by statute.

Dr. Roberts pointed out that class sizes would increase as high as 47 students in the Nye County School District. Nye County did not have large enough high school or middle school classrooms, and the State Fire Marshal would not allow that many students in one classroom. The District elementary school class sizes would increase to 37 students. The District laid off 10 percent of its staff last year and that was 74 employees, which included 38 teachers. The District had approximately 800 classified and certified staff including 353 teachers. The District tried to maintain the classroom size but would lose additional staff.

In response to a question from Senator Cegavske, Dr. Roberts said he would lose 53 teachers if no concessions were given by the employee associations. The administration union had given concessions last year, but no concessions had been given as yet in this year. He was optimistic that all associations would do the right thing.

Dr. Roberts detailed the effects of the school district budget cuts in the counties in Nevada. He said over the last three years the school districts had suffered material cuts and Churchill, Douglas, Lincoln, and Nye had closed schools as a result of the budget cuts. Churchill, Esmeralda, Humboldt, Lander, Lincoln, Lyon, Pershing, and White Pine had moved to a four-day school week in some or all of the schools. Churchill, Lincoln, Pershing, and White Pine had been forced to make reductions in art, drama, and music education.

Dr. Roberts continued noting that last year the Nye County School District began charging each student $35 per season for athletic sports or extracurricular activities. Storey County had delayed implementation of a technology plan. Ten counties had reported increases in class size and 14 counties had reported layoffs or hiring freezes of vacant positions. A temporary waiver passed by the 26th Special Session (2010) allowed districts to increase class size by one to three students, resulting in smaller work forces and larger class sizes. Some of the Nye class sizes were at nearly 30 students in the elementary schools. Esmeralda did not have funding to offer a school-lunch program. Churchill, Lyon, and Nye implemented furlough days for their nonunion employees.

Dr. Roberts continued and said a 10 percent cut would force the District to lay off more employees. Fourteen of the districts would have to increase class size rather than eliminate more teaching jobs. Carson City, Churchill, Elko, Humboldt, Lyon, Mineral, Nye, Pershing, Storey, White Pine, Lander, and Lincoln would be forced to reduce or eliminate sports and/or music programs or require pay-to-play for those programs. Churchill, Humboldt, Nye, and Pershing would have to close schools. The economic effect was material.

Dr. Roberts stated the Clark County School District was the largest single employer in the state with over 35,000 jobs. The Washoe County School District was the largest employer in Washoe County. The Humboldt, Lincoln, Lyon, and Nye School Districts were also the largest employers in those counties. The Carson City, Churchill, Douglas, Lincoln, Esmeralda, Mineral, Pershing, and White Pine School Districts were the second or third largest employers in their counties. Lyon County had been identified as the third most stressed county in the United States because of housing foreclosures and unemployment. Any additional stress caused by school district layoffs would only exacerbate the situation. The Nye County School District had a drop-out rate of 0.8 percent and a 76 percent graduation rate. The District was working hard and doing the best it could for its students with what was available and would continue to do so.

Chairwoman Smith reminded the Subcommittee that it often got bogged down with the current problems and forgot to talk about what the districts had been through in the last few years and how many cuts had been made.

Heath Morrison, Ph.D., Superintendent, Washoe County School District (WCSD), testified that Jeremy Aguero, the noted economist, said the budget being considered represented the single largest cut to education in the recent history of Nevada. There had been a 9 percent cut of about $630 million, a $425 million sweep of the debt reserves, and a repurposing of about $114 million annually of the room tax that was supposed to go to innovative and reform efforts in the school districts. With the call to repurpose and consolidate the categorical programs into one area, there was an additional $19 million reduction in those moneys and a total of over $1 billion in reductions. The WCSD faced material budget reductions during the last several years. Over $44 million had been cut over the past three years, and last year there was an additional $35 million reduction.

Dr. Morrison spoke about how WCSD made the $35 million reduction and how it would achieve the additional $75 million cut for FY 2012 and $75 million cut for FY 2013. The goal was to absorb the effect of all the budget reductions as best as possible without a significant effect to the classrooms. The five employee associations volunteered concessions to help the District make the cuts. The District increased class sizes, deferred textbooks, and used contingency funds to make the necessary cuts. If WCSD did everything it did last year, the District would have a $40 million deficit in the FY 2012 budget.

Dr. Morrison said WCSD would need to negotiate with employee associations, increase class sizes, defer textbook purchases, reduce central services, and cut programs such as gifted and talented students, music, and athletics. About 89 percent of the District's budget paid for salaries and benefits so the District would have to increase class sizes. The WCSD would ask its associations for 25 furlough days, or would be looking at classroom increases of about 5 to 6 students. That would equate to a loss of 400 teaching positions and 150 support staff positions.

Dr. Morrison continued and said WCSD had a strategic plan that showed how the District would go about its mission of being about every child by name and face to graduation. The District had some early successes and increased academic success on the state tests last year with over 84 percent of its elementary and middle schools and all of the high schools making comprehensive adequate yearly progress under the No Child Left Behind Act. The WCSD increased graduation rates by 7 percent but the District's 63 percent graduation rate was not adequate. He would propose increased graduation targets at his Board of Trustee's next meeting. The strategic plan was built around high accountability. The plan contained the targets the District pledged to hit. The District reached its targets for last year and had already exceeded its targets for this year. Dr. Morrison was fearful of the upcoming cuts and the conversations that might have to be held with the Board. He may have to talk about what to reduce in the plan and he did not want to do that. He wanted high accountability and high measurements to show what the District was doing in Washoe County. That was the District's pledge; it was the promise.

In response to a question from Assemblyman Hickey, Dr. Morrison replied that WCSD had five employee associations. All five came voluntarily to the table and offered similar concessions last year. The Executive Budget contained a 5 percent salary reduction, a 25 percent Public Employees' Retirement System (PERS) contribution, a freezing of step and scale salary increases, and all those changes would total about $35 million. The concessions approved by the employee associations last year totaled about $12 million.

Chairwoman Smith asked for clarification. Dr. Morrison replied the 5 percent cut, plus the PERS change, plus the step and scale change, totaled more than just a 5 percent change. The average annual teacher salary in Nevada was $51,829 and a reduction of 5 percent of that amount would be $2,591. The 25 percent PERS contribution would be $2,890, so the total of all the changes would be $6,037. He wanted to maintain the quality of teachers and believed it would be difficult to attract the best teachers with those cuts. The WCSD's starting salary would be about $31,000.

Senator Cegavske asked the Fiscal Analysis Division staff to work with Dr. Morrison to obtain the amount of savings from the proposed cuts of about $35 million and how those compared to the other reductions proposed in The Executive Budget. All the districts would have slightly different calculations.

Chairwoman Smith asked for Dr. Morrison's perspective about where the cuts would put Nevada compared to the national average in per-pupil funding. Dr. Morrison replied that some other states were facing similar cuts to those proposed in Nevada. The guaranteed per-pupil spending would decrease to $4,918 in Nevada, and that was less than half the national average. There was a tie between economic development and education. There was a need to work together to improve the conditions.

Senator Kieckhefer asked about the concessions made by the collective bargaining units. The concessions given by the school employees totaled about 25 percent of the cuts experienced by state employees, with 12 furlough days, no 5 percent incentive pay adjustments for additional skills or tasks, and no step increases. Many state employees earn around $30,000 and over 10 percent of their salary was taken as a contribution to their retirement accounts. School employees did not suffer those cuts. Senator Kieckhefer asked whether there was any discussion about parity with state employee benefits and the way employees were treated by different branches of government during the contract discussions.

Dr. Morrison responded that the discussions included concerns about the economic problems affecting salaries of the private sector and state employees. He was proud of the fact that WCSD had partnerships with the employee associations. Pay increases were granted to state employees during the good economic times that exceeded the increases provided to teachers. Now the conversation was that everyone must share an equal burden during the poor economic times. The employee associations would do what was needed. Dr. Morrison reminded the Subcommittee the discussion was about where we had been, where we were, and where we needed to go. The WCSD did not have employees making enormous salaries teaching children. It was exceptionally difficult to ask for salary concessions for the school employees, but he would do that because it was the appropriate thing to do.

Chairwoman Smith clarified that when the Legislature funded the school districts, not all the employees received the same raises. During times of anticipated cost-of-living adjustments, some employees had not received raises. That was because there were 17 different districts and boards, and many bargaining units.

Senator Cegavske asked about changes that could be made to education that would cost no money. She believed this was the right year to make policy changes because of the funding problems. The Legislature can make some monumental changes to improve and increase education such as looking at salary changes. The districts want to have good teachers making good salaries. Those teachers who were not good should not be teachers. The districts did not want to pay teachers well if they were not performing well. Governance changes and changes to improve how education was delivered in Nevada should be considered. Improvements were the Governor's focus and should be the focus of the Legislature. Senator Cegavske said there would be sacrifices made by all.

Dr. Morrison commented that it was difficult to change when times were good. The only persons that want to change without a sense of urgency were babies. He said the districts must look at challenges and opportunities. Education quality was important. Nevada ranked last in everything it wanted to rank first in and Nevada ranked first in everything it wanted to rank last in. That situation had to change for the economic development of Nevada, for its students, and to attract businesses. The WCSD was working with its employee associations. The WCSD received a federal grant and was changing its teacher evaluation systems and looking at effectiveness. The WCSD had one of the most aggressive reform agendas in the nation. This was an opportunity to work together to improve for the sake of being better. Concerned parties were going to have to be willing to do things differently for the sake of being better.

Senator Horsford wanted to talk about the budget and said facts were stubborn things. He was bothered by the earlier discussion about the capital reserve funds. There was a $477 million dollar reduction in per-pupil spending from two years ago under the Governor's recommended budget. There was an additional shortfall of at least $326 million from the capital reserve funds. The budget cut for K-12 was less than that number. When he added what the Governor's budget proposed plus the $477 million reduction, he was looking at another 7.5 percent reduction. In addition to the per-pupil reduction, he saw another cut of more than $500 per pupil. Senator Horsford wondered what that meant for the number of teachers that would be laid off. He wondered about the effect of increases on class sizes. He estimated 3,200 teachers and education support staff must potentially be laid off. He wondered where those persons would go and what professions would they be transferred to.

Jeff Weiler replied Senator Horsford's numbers were consistent with CCSD's figures. He said about 2,500 teachers and about 700 support and administrative staff would be laid off based on CCSD's projections. He assumed those persons would initially seek unemployment benefits.

Senator Horsford said under unemployment there would be an average additional cost to the taxpayer of about $16,000 per unemployed person. The 3,500 displaced persons in Clark County would cost the taxpayers and businesses about $51.2 million each year. Our unemployment fund was already broke, which meant that we would have to borrow more and pay more interest. Senator Horsford hypothesized that some of those persons would end up on public assistance. For every 1 percent that we reduce unemployment we cut Medicaid costs by $20 million. This education proposal would increase the number of persons on the unemployment rolls. Senator Horsford wanted that point to be understood by all. Each school district must make the decisions for its employees. He struggled with the inequity between different governmental agencies. He must make the decision as a legislator based on the facts in The Executive Budget. Senator Horsford must assume if the union concessions were not successful the districts must be cut by up to 15 percent.

Dr. Roberts replied that those school employees in Nye County who were laid off from the school district left the state. There were few jobs for college graduates in Nye's small rural towns, many homes were in foreclosure, property taxes were not being paid, and sales taxes were not being generated. He had an advanced-level chemistry teacher who quit over Christmas and moved to another state to get a job. He took his spouse who was a special education teacher. Dr. Roberts could not find a qualified teacher to fill that job so he cancelled that advanced chemistry class at the Pahrump Valley High School.

Senator Horsford commented that everyone says we want to improve education to grow the economy.

Assemblyman Grady said the Subcommittee had listened to "doom and gloom" for the past several hours. His home county of Lyon was leading the nation in unemployment and home foreclosures. By working together with the school board and superintendent, the Lyon County School District opened a new state-of-the-art school. The District's teachers did not take furlough days because salaries were funded from America Recovery and Reinvestment Act of 2009 (ARRA) moneys. Some difficult decisions would have to be made next year when there was no ARRA money. He said we needed to work together and he was proud of those persons in Lyon County who had worked together to move away from the doom and gloom. Things would get better and Nevada would get through this difficult time. He thanked the people of Lyon County for all their efforts.

Senator Cegavske asked whether there would be layoffs if the employee associations agreed to accept the 5 percent salary cut and the 25 percent PERS contribution.

Dr. Roberts said if the employee associations agreed to accept the concessions offered there would be very few layoffs, if any.

Chairwoman Smith asked for clarification. She commented they were not talking about just a concession of 5 percent and 25 percent, but also talking about a cut of $141 million for other pay concessions.

Dr. Morrison agreed and stated that WCSD estimated it would not only incur the state reduction in the budget but the loss of the ARRA funds, the loss of the two-thirds of the property tax, and the loss of the Education Jobs Fund (Ed Jobs) revenue. The 5 percent and the 25 percent would total about $34 million. The WCSD would still have to incur the total $75 million cut so that meant an additional $41 million reduction. If there was no cut at the state level, WCSD would still suffer cuts from the loss of ARRA funds and property tax. About 89 percent of WCSD's budget was salaries, and big cuts in salaries had already been incurred.

Mr. Weiler responded CCSD projected a shortfall of $266 million for FY 2012 that was a combination of the loss of state funding and the other items Dr. Morrison mentioned. An additional shortfall of $150 million would occur during the 2013-2015 biennium. The CCSD would have to increase class size by an average of 8 students. The District would face layoffs of about 3,200 employees. If the $266 million cut was just taken in salary, it would result in a 16 percent reduction in pay and benefits. The District's starting salary was $35,000 and would be reduced 10 percent. In response to a question from Senator Cegavske, Mr. Weiler said if the 5 percent and 25 percent reductions were accepted by the employee associations, the remaining cuts would total about $100 million.

Senator Horsford stated the Subcommittee must be careful not to turn this into an ideological debate. Other states were confronting this problem in a different way. The Legislature had the ability to be constructive about how it dealt with this problem but must focus on every scenario of the facts. If the Legislature turned this into an ideological debate over whether or not teachers pay should be cut 12 percent to 15 percent, then that was a different debate. That was not the decision that Senator Horsford would make as a legislator, but it was a decision that Ms. Edwards would make as a school board trustee. That was not the role of a legislator. The problem for the Subcommittee was how to provide basic support to K-12 education as constitutionally required.

Dr. Morrison responded that the districts would have to have this debate and the districts would not be able to address any of the shortfalls without some discussions with the employee associations about salary concessions. He thought when teachers were asked to take salary reductions everyone must recognize the cuts would hit the classrooms.

Caroline McIntosh, Superintendent, Lyon County School District, testified the District was the fourth largest district in the state with 8,500 students and had an 8.5 percent reduction in enrollment since 2008, which had continued to decline for obvious reasons. Lyon County was the third most stressed county in the nation. Lyon County had 18.5 percent unemployment tracked on a daily basis. She appreciated the opportunity to address the problems in Lyon County and presented Exhibit D. Lyon was geographically 2,000 square miles with five different communities. It had some challenges because the growth had migrated from south of the Carson River to north of the Carson River. Most of the services had been delivered from south of the Carson River. Lyon County was shifting what it did with its students and support.

Ms. McIntosh stated the District would experience a loss of its ARRA funding. The District received $3.4 million in Education Jobs Fund (Ed Jobs) support that helped the District buy back the furlough days. All three bargaining units came to the table, made concessions, and shared the cuts. The District was able to hire almost 40 positions with the Ed Jobs funds. She summarized the effects of the declining economy on students, families, and the District staff, which was the front line dealing with the students. The District had an 86 percent graduation rate and was working on closing the achievement gap and giving all students the opportunity to be successful.

Ms. McIntosh commented that the staff was running out of emotional capital because staff had been giving so much to their students. She summarized the efforts of the District to meet the needs of students and families. The District looked at every dollar and function to see what efficiencies might be possible. Improvements were being made whenever possible. She said that poverty was the greatest common factor among low-achieving children. The District was looking at situational poverty, and its goal was to prevent generational poverty.

In response to a question from Senator Kieckhefer, Ms. McIntosh replied that it was easier to cope with the challenges the District faced because it was a relatively small district compared to Clark County that may have more critical mass in regard to students and resources. Lyon County had 18 schools and 8,500 students. It was easier to bring that population together.

Chairwoman Smith said The Executive Budget proposal would transfer several programs to the Student Achievement Block Grant. Class-size reduction was one of the programs proposed for transfer.

Dr. Roberts replied the class-size reduction moneys were used to maintain the class sizes that the districts currently had. The districts would not be able to meet the mandates without having an allocation method and funding for the different districts. Nye County used the class-size reduction funds to pay for 17 positions. The other independent funding was $50,000 to each district for an elementary school counselor. Any block grant that took money away from those programs would result in a loss of jobs.

Dr. Morrison stated WCSD received approximately $4.6 million in the full-day kindergarten funding, which paid for about 84 teaching positions. Close to $20 million was received for class-size reduction and that paid for about 285 teaching positions. All the superintendents appreciated the Governor's proposal to take the categorical programs and put those into the Block Grant for maximum flexibility for the districts. Specific funds were designated for class-size reduction and full-day kindergarten. His concern was that if those funds were transferred to the Block Grant and the Block Grant was reduced by $19 million, then sufficient funds would not be available for the specific needs of each program. For every dollar spent on early childhood development, the state saved $17 of costs of future interventions and public assistance programs. He was concerned about reductions in those programs.

Dr. Morrison stated many complimented the Florida education mode. Dr. Morrison would love to match that model but Florida had the second highest funding to prekindergarten in the nation. Nevada ranked 50th in funding for prekindergarten. He said Florida ranked first in the nation for funding for full-day kindergarten and Nevada ranked last. Dr. Morrison said the Florida model would provide much more funding to the K-12 programs. He said as Nevada's economy improved, it would be wonderful to move to the Florida model.

Dr. Morrison commented on the physical capacity of classrooms that could hold 18 to 20 students. If 20 to 25 students were put into each WCSD classroom, then it would be difficult to educate that many students.

Mr. Weiler said CCSD funded 1,200 teachers with the class-size reduction moneys and 348 teachers with the all-day kindergarten moneys. The District may lose $12 million under the proposals. The District had built schools knowing the class-size reduction funding was available. The physical limit for the District's newer school classrooms was 19 students. Real facility problems would result from increasing class size.

Joyce Haldeman, Associate Superintendent, Community and Government Relations, Clark County School District, said she fought long and hard to obtain funding for the full-day kindergarten program. She was worried that over two decades ago she was fighting for reduced-class sizes and now a generation later she was still fighting for reduced-class sizes. She recognized the need for flexibility within the funding system, but if the funding was reduced and must be used for other programs, then there was no flexibility. She urged the

Subcommittee to maintain the categorical funding system to ensure money was designated for specific programs such as full-day kindergarten and class-size reduction.

Chairwoman Smith clarified the K-12 funding was a complex mechanism. The Governor's recommendation moved the class-size reduction funding out of the DSA and put it into the Block Grant. Other money from other accounts was also being moved into the Remediation Trust Fund Account.

Senator Horsford said the funding was reflected in The Executive Budget as an increase, but it was actually a shift and then a cut of funds. It was a reduction of 5.7 percent and it was being shifted to other sources. He asked about some of the other elements of the Florida model such as the per-pupil funding and a weighted support for English Language Learners (ELL) or special needs students.

Dr. Morrison elaborated on the Florida model. The Florida per-pupil funding was around $1,400 to $1,600 higher than Nevada's funding. Florida spent less than the national average as did Nevada. During the 2009-2011 biennium and the stronger economy, Nevada spent about $2,000 less than the national average and Florida spent about $400 less than the national average in per-pupil funding. There was a huge difference in the per-pupil funding. Florida spent more on prekindergarten and full-day kindergarten, which ensured better success for students. The Florida model contained more accountability measures.

Dr. Morrison believed the Florida model used a weighted-student formula for ELL. The weighted formula was not just a per-pupil funding mechanism, but included value-added points for student poverty, mobility, special needs, language, or geographic elements. Student weighting differed based on the circumstances. Nevada students had the least chance of success according to the survey *Quality Counts 2011*, which showed Nevada ranked last at 51st in the nation for success for students. The primary factor in the survey was the educational attainment of the parents, and a commitment to full-day kindergarten and class-size reduction.

Mr. Weiler said the District put forth a bill draft request (BDR) that proposed a weighted formula. Florida had a weighted formula and ELL.

Chairwoman Smith said once the funds were transferred to the Block Grant program there would be new questions about the adult education program and the early childhood program and how programs should be evaluated. She asked about the Regional Professional Development Program (RPDP) and wondered whether the salary reductions were applied to that budget.

Julia Teska, Budget Division, responded staff did not intentionally apply any reductions to RPDP because the program took a 41 percent cut during the 75th Session (2009). Staff believed it would not be appropriate to impose any additional reduction. She did not know what portion of the budget was allocated to salaries because she did not have access to the detailed budgets of the RPDPs.

Chairwoman Smith said if we were talking about shared sacrifice and parity then she could not understand why no reductions were imposed.

In response to a question from Chairwoman Smith, Dr. Rheault replied there was a slight increase in adult education funding in some areas. Richard Rasmussen, Educational Specialist with the Adult High School Diploma (AHSD) Program, Department of Education, testified that the Department was charged with distributing the money based on a formula. He worked directly with the high school directors from each of the 14 AHSD programs to determine how to make the distributions. Prior to 2008, the funding formula was based on each program's enrollment. Funding was split between the two programs that he currently operated: the regular free programs and those programs that were operated within the correctional facilities in the state.

Mr. Rasmussen said starting in FY 2008 the Department introduced a new funding formula. The proposal was accepted by the adult program directors of the participating school districts. The new funding formula was based on program enrollments over the previous five-year period to establish a baseline for the funding. After the baseline was established, the regular programs were flat-funded. This flat funding stabilized the regular program budget from year to year. Therefore the programs were not exposed to significant enrollment increases or decreases. Quite often the smaller districts might have 50 students one year and 70 students the next year. Basing the funding distribution on the enrollment figures in the smaller districts was somewhat detrimental to their budget planning. The correctional programs were also flat-funded in FY 2008 and were increased from the original funding percentage of 70 percent regular AHSD programs and 30 percent correctional programs to 65 percent regular AHSD programs and 35 percent correctional programs. These adjustments were made to accommodate the increased costs for the youthful offender programs at the Jean Correctional Center. Any program increases for the regular and correctional programs were based on the legislatively approved budget.

Chairwoman Smith expressed concern that the enrollment increased, but there was no ability to cope with that enrollment in these flat-funded budgets.

Mr. Rasmussen said the directors of all the adult high school programs met to decide how to allocate the funding and when to increase funding for the program. In two cases last year, the group increased the funding for Lincoln County and Douglas County because their enrollment increased rapidly. Funding was increased sufficiently to operate those programs.

In response to a question from Senator Horsford, Mr. Rasmussen replied the per-pupil average funding was approximately $841 for FY 2010 and had not as yet been calculated for FY 2011. Even though there was enrollment growth, there would be flat funding for the program for the 2011-2013 biennium. The program would need to serve more students with the same amount of money, so the cost per pupil would decrease. He noted that a 6 percent rate for growth was shown for the 2009-2011 biennium. He believed the growth rate for the 2011-2013 biennium would be between 3 percent and 5 percent because the growth rate over a 7-year period averaged 3 percent. He would provide the cost per pupil for the 2011-2013 biennium.

Dr. Rheault testified he looked at the Block Grant and the proposal for funding and determined it would affect large school districts more than small districts. The reason was it took into account the number of students and the number of staff. The class-size reduction was almost $145 million and was the biggest portion of the Block Grant. Whatever the class sizes were in the districts in the baseline year of 1991 determined how many additional class-size teachers the district needed to bring the ratio down to 16:1 in first and second grade and 19:1 in third grade. In 1991 Clark County had the largest class sizes in the state so it received the largest number of class-size teachers to meet that ratio. Some of the small districts did not receive any teachers because the districts were already at the ratio. His numbers showed Clark County lost about $19 million in the previous year when $19 million was cut from salary and other needs. He had a chart that showed how much the districts received this year. Washoe would lose $2 million and Elko would lose about $1 million. Most of the small districts actually came out even because those did not receive class-size reduction or full-day kindergarten funds. The Block Grant money would adversely affect the larger districts.

Dr. Rheault said transferring class-size reduction and full-day kindergarten money to the Block Grant did not appear to be providing flexibility because all it funded were salaries. Flexibility would be allowing districts to add two students to each grade to keep the class sizes down. Right now districts were not allowed to use different class-size figures other than the alternative program approved by the Legislature. Districts could use class-size positions from grades one through six. A district may choose to do that and four or five districts did so. The Legislature could consider allowing the districts to go back to kindergarten in the class-size formula. Dr. Rheault suggested there could be some flexibility granted for some types of shifting as well as using it in other grades.

In response to a question from Chairwoman Smith, Julia Teska replied that a BDR was being submitted to temporarily remove the minimum textbook expenditure requirement to provide greater flexibility to the districts during this challenging financial period of the 2011-2013 biennium. Ms. Teska said no inflation was built into the DSA budget for any cost increases for instructional supplies, textbooks, computers, or utilities. The Budget Division policy was to delete any inflation in state budget accounts and maintain consistency throughout the budget. The increase for utility costs was built into the budget for the 2009-2011 biennium as a special appropriation. That money was cut during the 26th Special Session (2010).

Senator Cegavske asked about a program to allow the use of laptop computers rather than textbooks and wondered about any possible cost savings.

Dr. Rheault said there were model programs in specific schools that used laptops and using iPads, but the data was limited, and he would provide that information.

Senator Horsford asked what was the Budget Division's position based on the testimony from the districts indicating the revenue projections did not provide sufficient funds to divert $425 million from capital reserve accounts. The diversion would result in either a property tax increase or increased costs for the bonds. Ms. Teska said she wished she could provide an answer but she would need to consult with higher level staff in the Budget Division for a response. She would provide that information to the Fiscal Analysis Division staff.

Lynn Warne, President of the Nevada State Education Association, testified in opposition to the budget reductions for education and presented Exhibit E. She believed enacting the budget as presented would create detrimental challenges to the students of Nevada. The proposed cuts would have a long-term and perhaps permanent effect unless we confront the need to have a stable and broad-based funding system for our public schools. To ensure success top school districts do two things: they develop effective selection techniques for choosing teachers and they pay a good starting salary. She concluded by saying that the Governor's proposals regarding K-12 pay were an assault on the pride, dignity, and income of every Nevada public school employee.

Andrea Hughs-Baird, Parent Leaders for Education, stated that in lieu of public testimony, the ten members of the Parent Leaders for Education that were present, were prepared to speak, but would submit their written comments to be made part of the official record. She presented her written testimony as Exhibit F. Frank Brittain submitted his written testimony as Exhibit G and Greta Jensen submitted her written testimony as Exhibit H. Written testimony was also provided by Mary Nakayu as Exhibit I and Paul Nakayu as Exhibit J. They were all in opposition to the budget cuts to education

Ms. Hughs-Baird testified she was a parent of three elementary school children. She volunteered six hours every week in her children's classrooms. She was in a leadership position in three parent organizations and was one of the Parent Leaders for Education. She asked the other representatives of Parent Leaders for Education to please stand and be recognized by the Subcommittee.

Ms. Hughs-Baird said as a founding member of Parent Leaders for Education, she had seen this group grow from a handful of involved parents to over 250 members in just 4 months and the interest and support continued to grow. The group hosted "Stand Up for Education" events in November and February with over 150 persons in attendance at each event. The group hosted Public Schools Week in Reno and Sparks in January, which resulted in visits to schools by nine of the ten Legislators from those areas. The group was now being invited by other parent groups to help host "Stand Up for Education" events at other high schools for the parents in those areas.

Ms. Hughs-Baird said she was speaking to advocate for education funding. She would bring all these numbers down to a school level. She was lucky to be zoned in an affluent school district. Her numbers represented a “best-case” example. Most schools would be in a worse situation than her school.

Ms. Hughs-Baird shared what the parent organization at her children’s school paid for in addition to traditional “parent group expenses” such as an end-of-year party. In addition to the $20,000 to $25,000 the school budgeted, the parent group spent an additional $84,000 to provide a quality education for the “easy-to-teach” children.

Ms. Hughs-Baird said to fund these expenses, the parent group held four major fundraisers during the nine months of the school year, which required three months of planning, hundreds of hours of volunteer time, and major support from the community in the form of donations.

Ms. Hughs-Baird said when she looked at these cuts and speculated how they were going to affect her children’s schools, she envisioned class sizes exceeding 20 students in the lower grades and 40 in the higher grades. Having only one or one and a half teachers per grade level meant split-level classes for some, possible elimination of the music program, possible cuts to library services, and a reduction of office support staff to possibly only one person in addition to the principal.

Ms. Hughs-Baird stated all of these cuts were well beyond what the parents would be able to mitigate.

Ms. Hughs-Baird paraphrased the Washoe County School District (WCSD) Superintendent during his “State of Education” address about what kept parents from giving up and gives them hope that the quality of education would improve in Washoe County.

Ms. Hughs-Baird said the answer was WCSD had a new strategic plan. She saw it as a model that could be used by other school districts in Nevada. Parents participated in conversations Dr. Morrison had with community members, business leaders, and staff. They had frank discussions about the strengths and weaknesses of the schools and challenged him to address the issues specific to all types of children. Through this year’s long, transparent process, the District and community developed the strategic plan. They were proud of the plan; it was a Nevada plan. They wanted this plan implemented. The plan was “shovel ready,” and in fact, the shovel was already in the ground.

Ms. Hughs-Baird said if there were drastic cuts equal to or greater than those of the 26th Special Session (2010), the WCSD strategic plan would have to be changed and the reform it promised delayed. That was not acceptable to the parents. The group offered support to the Legislature. If the Legislature supported funding education at the level of the last biennium, if it would make the decisions, compromises, and votes that were required to adequately fund the WCSD strategic plan, then the group would support the legislators the way the group supported the District and Superintendent.

Ms. Hughs-Baird concluded by saying the Parent Leaders for Education's mission was to advocate for a new culture in Nevada: one that promoted education as its top priority. The businesses, community, and parents were working hard together on an issue of high importance to both parties of the Legislature, namely education. She respectfully requested that the Subcommittee do the same.

Assemblyman Oceguera thanked the persons present who continued to support education.

Chairwoman Smith said parents had quit being advocates and started to fund the needs of their schools. She understood and appreciated that those present had risen to the challenge and had been strong advocates for education. As she thought about the contributions made by this parent group, she believed that resembled a tax increase to all those parents.

Senator Denis commented that he could imagine many improvements to education if parents and students did not have to go around selling candy bars and gift wrap but instead could focus just on education. Most of the schools in his district could not afford to make the types of contributions mentioned by Ms. Hughs-Baird. Senator Denis said if we did what we needed to do and funded education, we could improve education.

Sharla Hales, Attorney, past President of the Nevada Association of School Boards, and current President of the Douglas County School Board of Trustees, testified that she was in opposition to budget cuts to education. She had points about the cuts made during the last three years and the magnitude of the proposed cuts that she had planned to state but those points had already been addressed and would be redundant. She said there was an academic effect by sweeping the capital bond reserve account. In Douglas County they crafted a facilities master plan and would move the ninth-grade students housed at the middle schools back to the main high school. Two failed bond issues in the 1980s resulted in the need to move the ninth-grade students. The Board decided to modify the high school to expand and improve it to bring the ninth-grade students back to the high school. This would improve the student's access to technology and a broader offering of classes. The sweeping of the reserves would have a serious negative effect on the ability to proceed with the master plan.

Jack Mallory, Director of Government Affairs, International Union of Painters and Allied Trades, District Council 15, testified he represented the Southern Nevada Building and Construction Trades Council. The policy committees had done good work on legislation during the last two weeks of the legislative session to facilitate private-sector employment. The sweeping of the bond reserves would undermine all the good work of the policy committees. Sweeping available funds to complete current capital projects may decrease the bond rating. His greatest concern was whether the students would be adequately prepared to enter society. No matter how good the teachers were if they did not have the necessary tools to teach, then the students would not be ready.

Alison Turner, President, Nevada Parent Teacher Association, testified in opposition to the budget cuts to education and said the bond rating downgrade for CCSD was tied to the budget proposals according to Fitch and to Moody's. The District's enrollment had been flat over the past few years. The CCSD had 437,000 public school students in K-12 who could not wait several years to be educated. The greatest predictor for successful student outcomes was effective family engagement, and we did not practice that in Nevada. Nevada had pockets of excellence, but those were rare. The greatest barrier to successful student outcomes was poverty. She spoke of preschool through graduate school (P-20) education and said Nevada was currently ranked 50th in per-pupil funding. The budget proposals would be an additional level of cuts to that funding. The P-20 education should not be asked to accept the seventh round of cuts in the last few years. There was a clear correlation between investment in per-pupil funding and successful student outcomes. Investment in P-20 was the only way to strengthen Nevada's economy and diversify the state.

Chairwoman Smith asked whether there were further questions regarding budget account (BA) 2610, and there being none, the hearing was closed. Chairwoman Smith reminded the public there would be further hearings on education and the public was invited to a hearing Monday night at the Green Valley High School in Henderson from 5:00 p.m. to 7:00 p.m. She thanked everyone and adjourned the meeting at 11:24 a.m.

RESPECTFULLY SUBMITTED:

____
Janice Wright
Committee Secretary

APPROVED BY:

____
Assemblywoman Debbie Smith, Chair

DATE: ___________________________

____
Senator Steven A. Horsford, Chair

DATE: ___________________________

EXHIBITS

Committee Name: Assembly Committee on Ways and Means/Senate Committee on Finance Joint Subcommittee on K-12 Education/Higher Education

Date: February 24, 2011 **Time of Meeting: 7:36 a.m.**

Bill	Exhibit	Witness / Agency	Description
	A		Agenda
	B		Sign-In Sheet
	C	Keith Rheault, Ph.D., Superintendent of Public Education, Department of Education	The K-12 School System Budget 2011-2013
	D	Caroline McIntosh, Superintendent, Lyon County School District	Lyon County School District Fact Sheet
	E	Lynn Warne, President, Nevada State Education Association	Written Testimony
	F	Andrea Hughs-Baird, Parent Leaders for Education	Written Testimony
	G	Frank Brittain, Parent Leaders for Education	Written Testimony
	H	Greta Jensen, Parent Leaders for Education	Written Testimony
	I	Mary Nakayu, Parent Leaders for Education	Written Testimony
	J	Paul Nakayu, Parent Leaders for Education	Written Testimony