

# Betting on Nevada's Children: A Plan for Education Reform in the Silver State

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## Introduction

The State of Nevada ranks close to last in educational achievement across a variety of measures, often placing 45<sup>th</sup> or worse among the 50 states and the District of Columbia.<sup>1</sup> Judging by these numbers reform is clearly needed. A variety of proposals have come forward, ranging from an increase in gaming taxes, with the funds being earmarked for education funding, all the way to a statewide voucher program. But it is uncertain whether these politically divisive plans will ever be implemented, especially ones involving competition among schools, as seen in the recent defeats of voucher programs in Utah and Florida. Thus, it is pertinent to lay out an alternative plan for education reform in Nevada, one that can be implemented in a reasonable time period and will likely improve student achievement.

Working within the framework of Nevada's public finance scheme, notable for its lack of a personal or corporate income tax, is crucial for realistic policy recommendations. Often overlooked approaches are those that are expenditure neutral. That is, a realistic reform plan will take into account that Nevada's total

spending level is limited by law.<sup>2</sup> Also, in order to build a political consensus, it is recommended that education spending stay a constant proportion of the budget, as raiding other parts of the budget decreases the odds of a reform plan being approved. This brief concludes one way to satisfy the above political and economic realities, while also increasing student achievement, is to freeze *real* Nevada System of Higher Education (NSHE) spending and divert these savings to early childhood education programs, where a substantially higher rate of return is realized.

## Education Spending: Working Within Nevada's Budget Process

Passed by the Nevada Legislature and signed into law in 1979, NRS 353.213 limits the total expenditures proposed by the governor of Nevada. Proposed spending can never be greater than total expenditures in the biennium of 1975-1977, indexed for population growth and inflation.<sup>3</sup> The Nevada Legislative Counsel Bureau notes that while "historically the expenditure limitation has been higher

<sup>2</sup> See NRS 353.213. The law actually limits state spending proposed by the governor, but in practice appropriated spending is very close to this figure.

<sup>3</sup> This is notably different from other state spending caps, such as Colorado's TABOR, in that decreased revenues do not have a "ratcheting down" effect. The cap does not include construction spending or state pension liability retirement.

<sup>1</sup> NAEP State Comparisons, National Center for Education Statistics. US Department of Education.

than the amount of General Fund appropriations recommended” by past governors, it is becoming increasingly relevant.<sup>4</sup> The 2005-2007 biennium shows the “wedge” between the spending cap and actual appropriations to be nonexistent, with the difference between total spending and the amount allowed by law to be a mere .03 percent of the budget.<sup>5</sup> With Nevada essentially at its maximum spending level permitted by law, increasing total state spending as a vehicle to increase educational achievement is not feasible given Nevada’s current financial situation.

Another option for increasing education funding outright is to shift monies from other general fund uses to the major education departments, the Nevada Department of Education and the NSHE. This strategy would fail to achieve education reform’s major objective, increasing student achievement. First, studies show the current amount of subsidies at most levels of education are likely too high. Research shows that even using favorable assumptions “increasing per pupil spending is not a wise investment” and yields low rates of return for almost all levels of schooling, with the notable exception being early childhood education.<sup>6</sup> This suggests reform is not served well by increasing spending levels, but that the destination of funding must change. Secondly, even if increased spending were to improve achievement, it would be impossible to implement on a substantial scale, as total education spending consumes 53.1 percent of Nevada’s budget.<sup>7</sup> With essential services such as Medicare and Medicaid, corrections and policing taking up roughly 40 percent of the remaining part of the budget, as such, there is simply little room for increased education funding in Nevada.

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<sup>4</sup> General Fund Appropriations and Total Budget, *Nevada 2007 Fiscal Report*, 23.

<sup>5</sup> Author’s calculation.

<sup>6</sup> James Heckman and Pete Klenow, *Human Capital Policy* (Hoover Institution 1998), 37.

<sup>7</sup> General Fund Appropriations, *Nevada 2007 Fiscal Report*, 29.

Thus, a plan to reform Nevada’s educational system should abide by the aforementioned political and economic realities. Maintaining expenditure neutrality will increase the probability of reform being passed into law, and can be done by having total education spending increase at a rate of population growth plus inflation.<sup>8</sup> With some basic guidelines laid out, the question then turns to the specifics of reform. This involves an overall plan of shifting funds to education programs where higher rates of return are realized, making each dollar spent by the State of Nevada more productive.

### **Nevada’s Two-Tiered Educational System**

Nevada’s K-12 educational system is organized under the Nevada Department of Education and policy is largely decided at two levels, the Nevada Legislature and local school boards. The Nevada Legislature’s role is to set guaranteed per pupil expenditures and supplement local taxes to achieve this level. Responsibility for overseeing spending growth and ensuring education remains the same portion of the “budgetary pie” rests with the legislature. The legislature can ensure per pupil K-12 education spending grows at a rate above population growth plus inflation, causing it to rise in proportion to NSHE spending.<sup>9</sup> Policy decisions that determine how funding is specifically spent lie with each local school board. As the Nevada Constitution establishes school districts at the county level, the numerous county school boards will be responsible for implementing specific policy recommendations about the shifting of funding to younger students.

The NSHE is organized in a similar fashion to the K-12 system. The legislature sets base funding levels and draws from the state’s general

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<sup>8</sup> This rule allows total education spending to essentially move along with the expenditure cap, which will keep it a constant proportion of the budget.

<sup>9</sup> If total education spending grows at a rate of population growth plus inflation, one segment growing faster than that necessarily increases its share of education funding.

fund to supplement revenues from tuition and other fees to make certain these levels are met. As with K-12 funding, the legislature oversees the budgeting of monies for NSHE. It can ensure that base funding grows only at the rate of inflation, thereby freezing real NSHE spending. The Board of Regents, NSHE's governing body, is responsible for the implementation of specific policy decisions once the legislature has set base funding. As this paper's only recommendation for NSHE policy is a real freeze of spending growth, the Board of Regents' role in reform would be minimal and likely only consist of altering tuition levels. Expenditure neutrality can be maintained by applying NSHE savings toward the growth in K-12 spending, which will target early childhood programs.

### **Education Spending: The Earlier the Better**

In education, time is of the essence. Research shows that "early failure breeds later failure" and that students who do not learn critical skills early on are almost destined to fail later in life.<sup>10</sup> This idea should drive any coherent reform plan, as government resources are scarce and it is inefficient to funnel money toward educating older generations if the rates of return on these investments are low.

Given this reality, Nevada can pursue a policy that increases the effectiveness of each dollar spent on education. A simple goal of reform should be to reallocate education funds across levels of schooling as to roughly equate the rate of return on each dollar spent.<sup>11</sup> This policy is based on a simple premise: each additional dollar spent on a given tier of schooling has a decreasing marginal effect on achievement. As funding is pulled back from low-return areas such as the NSHE, the rate of return of each dollar spent in these areas should increase, and vice versa for underfunded, early education

<sup>10</sup> James Heckman, "Policies to Foster Human Capital," *NBER Working Paper No. 7288* (1999), 2.

<sup>11</sup> *Ibid.*, 7.

programs. This reform plan addresses this broad goal to improve the overall effectiveness of Nevada's current levels of education spending.

### **NSHE and Adult Education Reform**

The operating budget for the NSHE in the 2005-2007 biennium was 1.48 billion dollars, with the governor proposing roughly a 15 percent increase for the 2007-2009 biennium.<sup>12</sup> A more reasonable figure would be for NSHE funding, which is used to operate Nevada's universities, to only grow at the rate of inflation which would effectively freeze real spending. This is appropriate considering the low rate of return for postsecondary school education spending.<sup>13</sup>

Evidence suggests NSHE spending is far above efficient levels, even in light of the positive externalities of higher education. At the average college in the United States, around 70 percent of the cost of attendance is subsidized,<sup>14</sup> and the NSHE figure is roughly the same. This is above the level needed to promote an educated work force, as cost is not a major factor in determining whether someone attends a public university at current tuition levels.<sup>15</sup>

A freeze in NSHE-spending growth would not be a huge shock to Nevada's universities. Rather, it would force the system to push more of the cost of attendance on students, which is suitable given the current subsidization of Nevada's public universities. This policy would raise tuition, but this is reasonable given the

<sup>12</sup> Education, *Nevada 2007 Fiscal Report*, 100.

<sup>13</sup> Attending college and earning a degree does, in itself, have a high rate of return. However, the more important point is whether increasing current subsidies raises the number of students attending college substantially. If it does not, then each additional dollar of subsidy will have a low rate of return for society as a whole.

<sup>14</sup> Winston, G., 1997. "College Cost: Subsidies, Intuition, and Policy," in *Straight Talk about College Costs and Prices: Report of the National Commission on the Cost of Higher Education*, (Phoenix: Oryx Press, 1998).

<sup>15</sup> Heckman and Klenow, 33.

fact that in-state tuition at Nevada's two major universities is roughly \$2,800 per year, ranking 2<sup>nd</sup> cheapest in the nation.<sup>16</sup> A slowing of NSHE expenditure growth would bring public costs more in line with societal benefits, and could be reexamined at some point in the near future.

### **Early Childhood Education: The Focal Point of Reform**

If Nevada wants to achieve a higher rate of return on current education-spending levels, it should spend more on early childhood education. Evidence suggests "at current levels of investment, the returns to investment in the young are quite high," especially when compared to investment occurring at other stages in the life cycle.<sup>17</sup> One study found that programs such as Head Start would pay for themselves even if benefits were a fourth of what many predict.<sup>18</sup> Early childhood programs appear to be the most efficient use of education funding.

Funding for early childhood education can come from the savings caused by the real NSHE-spending freeze, allowing the reform plan to be expenditure neutral. Given the low levels of current spending, Nevada's early childhood programs can be drastically expanded. For instance, the State of Nevada issues roughly \$3 million in competitive grants for early education programs,<sup>19</sup> a number far too low for a \$3 billion education budget. The state should consider expanding grants to allow private organizations to experiment with a variety of programs, as not all kindergarten-aged children have the same needs. Programs could range from simple full-day kindergarten all the way to intense development courses for low-income children, combined with checkups at home to ensure

sound parenting. A study of the Chicago Child Parent Center (CPC) shows that the earlier and more intense these interventions are, the higher the return is for society, with some programs returning 7 dollars per dollar invested.<sup>20</sup> The Chicago CPC took a holistic view of early childhood education, coupling intense, high-quality classroom learning with immunizations and parental outreach. A program in the mold of CPC could be especially effective in Nevada, considering how structure is badly needed in single-parent households where the adult is highly likely to be working in a twenty-four-hours-a-day industry.

In addition to the CPC, there are several other successful programs Nevada could emulate for its early childhood education needs. Under a system of well-funded, competitive grants, Nevada could oversee an expansion of its early childhood programs and realize a high rate of return on its investment. This early investment is critical, as a dollar invested in this period of a child's life saves many more down the road.

### **Conclusion**

This paper presents a sensible, politically feasible plan for reforming Nevada's educational system. By remaining expenditure neutral, bitter fights over education-funding levels are avoided. The plan also avoids school vouchers, a poison pill that will kill any education reform plan. If Nevada is going to spend half of its budget on education, it needs to do so in the most efficient manner, one that maximizes the rate of return on each taxpayer dollar invested. By shifting money from low-return areas to high-return ones, this plan will make the most efficient use of Nevada taxpayer funds and does so in a way that can be accomplished in the near future.

<sup>16</sup> Digest of Education Statistics, National Center for Education Statistics. US Department of Education.

<sup>17</sup> Heckman, 6.

<sup>18</sup> Janet Currie, "Early Childhood Education Programs," *The Journal of Economic Perspectives* (Spring 2001), 213-238.

<sup>19</sup> Education, *Nevada 2007 Fiscal Report*, p. 96.

<sup>20</sup> Reynolds et al., "Age 21 Cost-Benefit Analysis of the Title I Chicago Child-Parent Centers," *Educational Evaluation and Policy Analysis* (June 2001), 267-303.

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By  
Jack Brown  
Graduate Student in Economics  
University of Nevada, Las Vegas

If you need more specific information about the children and youth in your local area, contact Nevada KIDS COUNT, Keith Schwer, PhD, Director CBER or Rennae Daneshvary, PhD, Nevada KIDS COUNT Coordinator, Associate Director of Research and Administration.

Phone: (702) 895-3191  
Fax: (702) 895-3606  
E-mail: [kids@unlv.nevada.edu](mailto:kids@unlv.nevada.edu)



**The Center for Business and  
Economic Research**  
**Box 456002, 4505 S. Maryland Parkway**  
**Las Vegas, Nevada 89154-6002**