

**MINUTES OF THE  
COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION'S  
FUNDING FORMULA SUBCOMMITTEE  
(Senate Bill 374 of the 2011 Legislative Session)  
July 11, 2012**

The Committee to Study the Funding of Higher Education's Funding Formula Subcommittee (Senate Bill 374 of the 2011 Legislative Session) held its second meeting of the 2011-12 Interim on July 11, 2012, in room 4401, Grant Sawyer State Office Building, Las Vegas, Nevada. The meeting was videoconferenced to room 2135, Legislative Building, 401 South Carson Street, Carson City, Nevada and room 123, High Tech Center, Great Basin College, 1500 College Parkway, Elko, Nevada.

**COMMITTEE MEMBERS PRESENT IN LAS VEGAS:**

Senator Steven Horsford, Chairman  
Hugh Anderson  
Michael Gordon

**COMMITTEE MEMBERS PRESENT IN CARSON CITY:**

Heidi Gansert

**COMMITTEE MEMBERS PRESENT IN ELKO:**

None

**COMMITTEE MEMBERS ABSENT:**

Assemblywoman Debbie Smith  
Kevin Page

**STAFF MEMBERS PRESENT IN LAS VEGAS:**

Alex Haartz, Program Analyst, Fiscal Analysis Division

**STAFF MEMBERS PRESENT IN CARSON CITY:**

Mark Krmpotic, Fiscal Analysis, Fiscal Analysis Division  
Mike Chapman, Principal Deputy Fiscal Analyst, Fiscal Analysis Division  
Patti Sullivan, Committee Secretary, Fiscal Analysis Division

**EXHIBITS:**

[Exhibit A](#) - Agenda

[Exhibit B](#) - Information and Analysis of the NSHE's July 3, 2012, Response to the Subcommittee's June 20, 2012, Meeting Questions Pertaining to the NSHE's Alternative Funding Formula

[Exhibit C](#) - Nevada System of Higher Education – Appendix A, Discipline Clusters and Weights

[Exhibit D](#) - Nevada System of Higher Education – Response to the Subcommittee's June 20, 2012, Questions Regarding the Alternative Funding Formula

[Exhibit E](#) - SRI International – Response to the Subcommittee's June 20, 2012 Questions (Distributed but not Discussed)

## **I. ROLL CALL.**

Chairman Horsford called the meeting of the Committee to Study the Funding of Higher Education's Formula Funding Subcommittee to order at 9:42 a.m. and the secretary called roll. Members were present at the meeting, with attendance in Las Vegas and Carson City, except Assemblywoman Smith and Mr. Page who were absent excused.

## **II. PUBLIC COMMENT.**

Chairman Horsford called for public comment.

Joshua Levin, Professor, College of Southern Nevada (CSN), thanked the Board of Regents and the Chancellor for moving forward in crafting meaningful solutions to the long-standing funding issues. He stated that he has been a professor at CSN for more than ten years and would focus his comments on the aspect of the discussion that was directly connected to the education of students. He referred to the relationship between funding, failing grades and degree completion. He said that at the college level the linking of funding to grades or degree completion would result in an erosion of academic standards that would undermine the meaning and utility of the grade or degree. If funding was linked to passing grades and degree completion, students would pass classes without knowing the material and receive degrees that they have not actually earned resulting in a workforce unprepared to succeed. Mr. Levin indicated that this concern was particularly acute at CSN; college was an opportunity and not a promise, and students must do the required work in order to take advantage of college. Mr. Levin stated that learning in school was more like a fitness membership than buying a new car and paying for the product was not enough – students actually had to do the work. He said there was substantial portion of students at CSN, who were unprepared or facing life situations that were so onerous that they simply could not do the work at that time in their lives. Mr. Levin said that in some of his difficult courses he provided students with a grade C guarantee – if students did what was expected in any high school, college or university, the student was guaranteed a grade C even if they did poorly on the three cumulative examinations. The expectations for the grade C guarantee were, 1) the student must take useful, meaningful notes on the course materials and lectures, 2) must write three short single-page scholarly papers with proper citations, and 3) must earnestly take the exams even though they might not do well. Mr. Levin stated that the subcommittee would be astonished to hear that in spite of his generous offer to students, he still had classes in which more than one-third of the students would fail or withdraw, because the students that actually did the work had little problem passing the course without the guarantee. The students who withdraw or fail were simply unable to do their schoolwork to take advantage of the guarantee. Mr. Levin said this was simply the reality of education in Nevada at this level and it would be a mistake for all concerned if Nevada passed these students and provided their subsequent degrees when they have not done the work, which was precisely what would happen if funding was tied to grades and degree completion. To clarify, Mr. Levin said it was easy for professors to pass their students – it was harder to fail a student, which lead to concerned and sometimes angry students that contest grades, concerned

and frustrated administrators, and disappointed professors. When professors give students accurate grades, whatever the grade, they do it because they had a passionate commitment to genuine education. Accurate grades and legitimate degrees were the gold standard of the trade and linking funding to this academic domain would distort and devalue the currency on which all parties depend.

Mr. Levin strongly urged the committee to vote against measures that would erode academic standards by linking college funding to passing grades and degree completion.

Dr. Darin Docksteder, Faculty Senate Chair-Elect, Professor, CSN, and in addition to his teaching duties, he spent the last four years on the CSN curriculum committee. He thanked the committee for the opportunity to speak and said he fully endorsed the Chancellor's fair and equitable funding formula proposal. He would briefly address the notion of establishing a separate governing body for the Nevada System of Higher Education (NSHE) community colleges. He said that CSN was strongly opposed to the idea of a separate governing body for NSHE community colleges for several reasons, which had to do with creating a seamless path for transfer students from 2-year to 4-year institutions, as well as keeping the missions of the variety of NSHE institutions well defined.

Dr. Docksteder stated that under the current standard governance system, NSHE had a common course numbering system, which was good and facilitated transfer between institutions. The current NSHE common course numbering system compels communication and corporation between 2-year and 4-year institutions. He stated that in order for a course to be included in any institutions catalogue, the course must go through a curriculum common course numbering process. If an NSHE institution wanted to offer a new course that already had curriculum approval at another NSHE institution, the following things needed to happen, 1) the proposed course must satisfy a minimum of 80 percent of the course objectives established at other NSHE institutions where the course was being offered, 2) a proposed set of course objectives and a sample syllabus must be vetted by all NSHE institutions with the 80 percent conformity requirements as an objective measure in terms of syllabus outcomes and requirements, and all NSHE institutions must approve transfer credit for the course. If an institution wanted to offer a new course that was not being offered at another NSHE institution it had to go through a similar process – a set of course objectives had to be defined and a sample syllabus was created and circulated through all relevant departments at the other NSHE institutions and approved before the course could become a transfer course in the NSHE catalogue. Dr. Docksteder stressed that hiving off the governing structure of 2-year institutions would create obstacles to the process and artificial stumbling blocks for course objectives and requirements in terms of transfer. Secondly, there has been a lot of discussion about keeping the institutional mission of various NSHE institutions well defined and creating separate governance structures for different institutions of NSHE.

Concluding, Mr. Docksteder stated that allowing a situation for institutions to set up their own performance metrics outside of a cooperative agreement with other institutions would create discord.

Dr. Robert O' Meara, Professor, Political Science, CSN, stated that he attended some recent meetings of the committee and a lot of good information was provided, in addition to the hard work of the Chancellor's Office and detailed presentations from SRI International and the National Governor's Association. Dr. O'Meara recalled the question of entrepreneurship and the idea that they had to be entrepreneurial in what they were doing. Looking at this, he thought the public institutions throughout Nevada needed to ask what entrepreneurs do – they could be innovative, but he was not sure it was necessary and they had to consider that not all entrepreneurs were actually innovative. However, entrepreneurs utilize the resources with a degree of risk and perhaps risk aversion, but with a degree of risk to maximize reward. Dr. O'Meara thought that the public institutions put them into a different point of view – he agreed they must be innovative, aim for efficiency, and consider completions of degrees and transfer courses, but it was not the public institutions' resources, and it was not up to the System and policy makers to take risks and wonder what could be done, and how to best utilize the resources – the public taxpayers money. If education was a public good, they had figure out how it could be best delivered. He said it went back to the government and public policy questions of how to be most responsive to the public and how to improve efficiency. He noted that there were many economically disadvantaged people in Las Vegas, many were unemployed and lost homes and saw education as social mobility and a way to join in the prosperity that everyone hoped for, and he believed those people needed the opportunity of full access to education. Dr. O'Meara believed that there were risks involved with everything, but the risks needed to be minimized and the policy makers and System needed to be thoughtful in what they were doing. He believed the state was at a critical junction when looking at replacing one means of funding with another, and if this was going to be a rational and comprehensive policy reform, then they had to make it rational and comprehensive. He appreciated all the questions raised in the subcommittee and full committee meetings, but they could not get it wrong and be entrepreneurs taking risks with the resources. An entrepreneur could take several risks and fail before becoming successful – 80 percent of small businesses in the United States fail. However, the state did not have that luxury coming out of the current economic devastation and consideration had to be taken on how to utilize the resources and provide the training and education that was needed and required to succeed and make it work the first time. He was aware that the public officials, administrators and the institutions throughout Nevada were concerned, but they had to get the funding formula right. He proposed that the committee reflect on previous discussions regarding the Chancellor's proposed funding formula and incorporate the lessons that were offered by the various presentations before a decision was made. He thought the outcomes in the performance funding pool could be included along with progress metrics, which could be incorporated into the formula and given serious weight, especially progress in transfers from 2-year colleges to universities. Dr. O'Meara thought they needed to discuss the progress metrics and the common

ground, and if they were not going to use base funding on enrollment, but partially on course completions as part of the outcomes, they had to consider the F grade.

Dr. O'Meara referenced an article from the Community College Research Center (CCRC), Teachers College, Columbia University (<http://ccrc.tc.columbia.edu/>) entitled The Impacts of State Performance Funding Systems on Higher Education Institutions: Research Literature Review and Policy Recommendations (CCRC Working Paper No. 37). He said the abstract claimed that performance funding increased ultimate outcomes in the form of improved rates of retention. Completion of developmental education and graduation were not validated by solid data, in fact, there have been several failures in states, but the failures of the performance criteria needed to be examined in depth. In the face of the funding, Dr. O'Meara said that the report identified obstacles to the effective functioning of performance funding, as well as unintended impacts. The report closes by providing recommendations, after overcoming many obstacles, to the effective functioning of performance funding and addressing the unintended impacts documented by the review of the study. He requested that SRI International and the committee review the document to see the failures of other states and to learn from those failures. Instead of struggling to survive, he believed they could work together to have the best possible mixture of outcome and progress metrics in any performance pool in the country.

### **III. DISCUSSION AND REVIEW OF POLICY ISSUES FOR CONSIDERATION IN RECOMMENDING A HIGHER EDUCATION FUNDING FORMULA AND ANALYZING THE NEVADA SYSTEM OF HIGHER EDUCATION'S ALTERNATIVE FUNDING FORMULA PROPOSAL.**

Chairman Horsford directed the committee to the handout, Information and Analysis of the NSHE's July 31, 2012, Response to the Subcommittee's June 20, 2012, Meeting Questions Pertaining to the NSHE's Alternative Funding Formula Model ([Exhibit B](#)). He explained that the Committee to Study the Funding of Higher Education Funding Formula Subcommittee was created to examine the funding issues related to NSHE. He noted that there were seven specific charges in legislation that dealt with issues, from comparing the existing method of funding with methods used in other states, determining whether methods in other states would be more appropriate or useful in Nevada based on that review, and reviewing the issue around remediation in the context of instruction delivery. In addition, the subcommittee would examine the retention of resident tuition and fees at the campuses in which they were created, as well as the issue of the completed courses and how to reward for entrepreneurship and completion of courses rather than just on enrollment. The recommendations would be submitted to the 2013 Legislature and the Governor for consideration.

Chairman Horsford indicated that it was not the charge of the subcommittee to take an allocation worksheet and reallocate funding to the institutions in Nevada. He said that the committee has given ample opportunity and respect to the Chancellor and the System to vet that proposal once the concept was brought to the committee in the beginning stages, because they knew it was a value and ultimately how the dollars were allocated was important. However, it was not the driving policy issue that the committee

was charged to look into. The subcommittee has heard numerous presentations and substantive information was provided by SRI International, National Governor's Association, the System, and stakeholders, and now the charge of the subcommittee was to look at the driving factors in policy and reach consensus on where they wanted to go based on the analyses. Chairman Horsford stated that once the subcommittee agreed on how the policy should be structured, the allocation was then applied to see how it was distributed to each institution.

Chairman Horsford explained that the subcommittee would spend time on the policy and receive input on the observations of the policy and then provide direction to staff working with SRI and the System to take the subcommittee's direction on the policy to see what it looked like in an allocation format. He said it was not just about an allocation for the 2013 Legislative Session, but how to fund higher education in Nevada for the next 10 to 20 years. It was important to get it right by deciding the policy first and not how much money went to the institutions based on running the numbers with a methodology that was not clear or driven by key policy considerations. Chairman Horsford stated that there were at least four key policy areas to cover to complete the work of the subcommittee. He wanted to start with the issue of the weighting of student credit hours and the proposal by the System, as well as the review by SRI International on how other states approached the weighting of certain course disciplines and levels. He referred the subcommittee to Issue 4, Weighting of Student Credit Hours, page 11 ([Exhibit B](#)).

Alex Haartz, Program Analyst, Fiscal Analysis Division, directed the subcommittee to the handout dated July 11, 2012, Information and Analysis of the NSHE's July 3, 2012, Response to the Subcommittee's June 20, 2012, Meeting Questions Pertaining to the NSHE's Alternative Funding Formula Model ([Exhibit B](#)). He said that staff took the four main issues identified and provided information on each issue, including an analyses or summarization of the various funding model scenarios provided by the Chancellor's Office. Mr. Haartz stated that the first issue to be discussed was the weighting of student credit hours, page 11 of [Exhibit B](#). Under the summary of issue, at its June 20, 2012, meeting, and in the full committee meetings, there were concerns on the weighting of certain course disciplines and levels as proposed by NSHE's alternative funding model, not necessarily the grouping or the organization of the disciplines and how that was structured, but the weighting. Mr. Haartz referenced a one-page document that was provided to the committee, Appendix A, Discipline Clusters and Weights ([Exhibit C](#)), which was the weighting system that was contained in the original proposal from the Chancellor's Office. He explained the Appendix A was part of the System's original document presented to the committee entitled A New Model for Funding Education in Nevada. Mr. Haartz said that the question that the committee had in the context of weighting was with mission differentiation, and how the proposed weighting system addressed the issue of mission differentiation and if it supported it sufficiently or appropriately. The Chancellor's Office, in its July 3, 2012, response under Question 7, indicated that the System's existing institutional framework was comprised of three instructional tiers – each tier had a slightly different mission exclusive of what was proposed in the performance pool that the weighting system proposed to address

those three tiers independently. For example, under the community colleges, the Chancellor's Office indicated that the mission differentiation was supported at the level of academic degrees, including the transfer of students from community colleges to 4-year institutions, as well as the production of technical degrees/certificates that the discipline clusters and weights support differentiation by providing funding for remedial instruction. Additional weighting was provided for credit hours in the technical and allied health fields. The next tier level, Nevada State College, the mission was identified as the awarding of baccalaureate degrees through open admission for freshman and transfer of community college students. Differentiation occurred through the funding of remedial instruction, as well as the additional weighting of credit hours in professional degrees, which were identified as education, nursing and other allied health courses.

Mr. Haartz stated that at the University of Nevada, Las Vegas (UNLV) and University of Nevada, Reno (UNR), mission differentiation was identified as the awarding of baccalaureate, masters and doctoral degrees noting that there was no funding for remedial instruction included in the weighting system. For upper division – masters and doctoral courses – a 10 percent research factor was built into the weightings and was proposed in addition to the weighting structure. Mr. Haartz clarified that the weighting structure contained in Appendix A was weighted for cost alone based upon the National Center for Higher Education Management Systems (NCHEMS). The work NCHEMS did at the request of the Chancellor's Office and what has been incorporated into the discipline and weights (Appendix A), merely reflected weighting for cost and not research, which was a proposal contained in the Chancellor's Office methodology.

Chairman Horsford said that there were a number of key underlying policy issues imbedded in what Mr. Haartz covered. The first issue he wanted to address were the three instructional tiers, the differentiation of programs, common courses across all systems that maybe the same, and the non-core courses based on mission of each institution that may need to be weighted differently. The second policy issue he wanted to address was the weighting for cost issue. He added there was a lot of debate around using outcomes and not cost as a driving factor, which was a policy consideration that the committee needed to be aware of so the next Legislature does not have to rehash the issue without the justification for the direction they were going.

Chairman Horsford asked if there should be different weights for the three tiers, and if there were different weights, if common courses could be weighted the same regardless of where they were taught. In addition, he asked if there should be a different weight for the non-common core classes at the lower division versus upper division based on mission of the institution.

Hugh Anderson said that the concept of alignment was discussed in previous meetings, not only that the different tiered institutions have curricular alignments making an easy transition from one institution to another, but also the weighting of the curriculum and if it would serve the bigger issue of the economic development vision for the state. He said that all PhDs were worthy of academic merit, but in terms of what they trying to pursue as a state in employment and economic growth and development, they had to keep in

mind what they were trying to accomplish from a bigger picture and consider differentiating the academic pursuit at all tiers on how it was feeding those key sectors that they were looking to support with able-bodied workers.

Chairman Horsford stated that the first issue to be discussed was the weighting of student credit hours and if the policy should recognize weights that were different based on the mission of the three-tiered system.

Ms. Gansert said that she thought the weightings should be based more on the cost for the base component since the subcommittee was using the framework that was proposed by the Chancellor as a starting point. She thought the economic development factor and the classes that should have a higher weighting were taken care of in the performance piece because there was a factor for economic development, STEM and allied health, and something could be added around the hotel schools. She believed the extras around differentiation could be taken care of in the performance pool, but there should be the same type of weighting in the base formula for credits being transferred across institutions.

Chairman Horsford said he had challenges using Appendix A ([Exhibit C](#)) as the discipline clusters and weights because lower division courses were treated the same regardless of the tier of institution. In his opinion, the weights should be the same for the core courses that were required, such as mathematics and English, regardless of the institution the student was enrolled in, which was reflected in Appendix A. For the lower division non-core courses, he questioned if there should be different weights for the mission purpose of the courses that were offered at universities that may be different from the weighted formula for courses offered at the state college. In addition, he questioned the upper division courses that were weighted the same regardless of the tier of institution. He asked if there was a way to look at restructuring Appendix A to get to the issue of mission differentiation so they could see how the weights would be applied by tier, and then the core courses being weighted the same regardless of the institution.

Crystal Abba, Vice Chancellor, Academic and Student Affairs, NSHE, stated that a new appendix could be developed. Providing some historical information, Ms. Abba indicated that when Appendix A was developed the Course Taxonomy was the mechanism that was used to funnel discipline cluster and weights into credit hours. She said that NSHE took the incredibly large files that were based on the credit hours of students within the Classification of Instructional Programs (CIP) code and funneled those in the matrix. In addition, she said that those could be sorted by institution type making it possible to separate, but it was also important to remember that for the different types of institutions, they were charging a different per credit amount. For example, the per credit registration fee at the universities was approximately \$171 versus approximately \$71 per credit at community colleges, and under the current proposal, the institutions get to retain that fee, so the System was making up some of that difference on the back end with the retention of the registration fee.



Chairman Horsford stated that policy was just to affirm the decision to keep fees and tuition at the campus where they were created, which he thought was an underlying assumption in all the models provided by the System and SRI International. He asked if it was possible to show the breakout of the weighted clusters by tier.

Ms. Abba believed that the breakout of weighted clusters by tier was in the documentation provided for the meeting. She added that there was a breakdown of the distribution of base student credit hours and weighted student hours after they were funneled through the matrix, which was Appendix B, page 18, [Exhibit D](#).

Chairman Horsford stated that was the actual distribution and he wanted to see courses like foreign languages weighted 1.0 at state colleges, community colleges and universities, and courses such as military technologies reflected in the tier if it was something that was more at one tier of an institution. He thought that the weighted numbers, which were really the numbers from NCHEMS that were across multiple states, still applied and the matrix showed the distribution.

Ms. Abba stated that NSHE could provide a distribution of the credit hours by CIP code by institution.

Ms. Gansert said that Chairman Horsford was talking about the lower division versus the upper division courses and the different tiers of institutions. However, the community college system does not have upper division courses, and Nevada State College (NSC) and the universities had both lower and upper division courses, so if the core was the same, those courses would transfer and the cost would be relatively close. She was unsure that upper division by tier really existed other than at NSC versus UNR and UNLV. In addition, it was the same with masters and doctoral degrees and only a few institutions provided those types of courses.

Chairman Horsford stated that Ms. Gansert was right except for upper division applied at Great Basin College in the select programs that were offered for a 4-year degree.

Ms. Abba stated that there were select baccalaureate programs at all of the community colleges in Nevada except Truckee Meadows Community College (TMCC).

Chairman Horsford asked if he was correct that under the current scenario a 2.0 weight was applied to all liberal art courses in upper division regardless of the tier of institution.

Ms. Abba replied that Chairman Horsford was correct with the assumption that there was a difference in terms of other revenue sources from the registration fees.

Chairman Horsford stated that before he was comfortable as a policy maker accepting that he needed to see lower and upper division courses by tier and which tiers really applied at what institutional level. He said that not all upper division courses were the same at every institution and when weighted in that manner it gave a certain benefit to the institutions that provided the course to the detriment of others. He said it was the

issue of how the formula was equitable, or not equitably viewed by all institutions, which he believed, was the underlying issue when a blanket weight was applied across all institutions.

Mr. Anderson noted that if the System was going to be pure to the mission of each institutional tier he would want to weight certain academic pursuits so that institutions could drive that mission by achieving the proper goal set, but not too broad of a spectrum of offerings that may be underutilized or not performed to the standards set.

Mr. Haartz said for purposes of clarification it appeared that Chairman Horsford requested that the data be broken down to show the credit hours by CIP codes versus the discipline clusters, in addition to credit hours shown cumulatively by institutional tier.

Chairman Horsford added that it should not be complicated to know what the weighted formula was by tier by institution. He was aware that the Chancellor's Office had to run different numbers to show how the distribution actually worked based on student enrollment. However, from a policy standpoint, the step-by-step process of how the methodology was used on mission differentiation of the weight that was given to each course should be available.

Ms. Gansert said page 19, [Exhibit D](#), showed NSHE course taxonomy and student credit hour distribution times discipline weights provided by the System, which she believed is what Chairman Horsford requested; however, the data was not broken down by cluster or CIP code. She asked if the committee wanted to move beyond the clusters provided by the Chancellor's Office or were they looking for another level down. She said that there were three defined tiers and to cumulate those tiers was one thing, but she wondered if the committee wanted to drop a level for liberal arts and have the CIP numbers.

Ms. Abba replied that the Chancellor's Office could provide that information on a granular level by CIP code.

Ms. Gansert asked if the granular information would be provided for CIP but cumulative for tier of institution broken down by the community colleges, state colleges and universities, because not all columns on Appendix A applied to all three levels.

Chairman Horsford asked if core courses were treated and weighted the same across all three tiers under Appendix A ([Exhibit C](#)).

Ms. Gansert asked for the definition of core courses. Ms. Abba assumed that the committee's use of the term core courses was referring to general education courses. She stated that core courses were classes that students were required to complete when pursuing a 4-year degree and could vary slightly at each institution and it would be harder to get to that level because they would have to go through every course in the NSHE Course Taxonomy, which was over 50,000 lines, and individually identify those courses to see if they fell into the category of being a general education requirement.

She would have to find out if the courses were flagged inside the student data warehouse as general education courses, and if not, the System could provide that type of filtering.

Chairman Horsford stated that it was his understanding that all students pursuing a 4-year degree were required to complete certain core courses regardless of the institution. He stated the issue for him was whether the weights and value given in the cluster were the same at every tier regardless of the institution. Ms. Abba replied that Chairman Horsford was correct.

Chairman Horsford asked if that could be written in policy because he thought it gets to the issue of the dispute between community colleges, universities, and state colleges and if classes were easier or better at different colleges. He believed that classes should be uniform at each institution because the System demanded the same standard for every institution.

Ms. Abba replied that there was a common course numbering system in place for undergraduate courses to assure that type of uniformity.

Chairman Horsford said for the non-core undergraduate classes, some courses like engineering were offered at the university, and there were introduction courses for degree classes that might be unique to that university mission that was not the same at other institutions.

Ms. Abba replied that Chairman Horsford was correct. She said that the weight was the same to the extent that there were other common courses offered at other institutions. If the course was only offered at one institution then it was the same weight for that institution, which was uniform across all levels – lower division, upper division, and masters or doctoral based on Appendix A ([Exhibit C](#)). She explained that primarily the Trade/Tech courses were offered at the community colleges but there were some upper division classes in that category. For example, there was a building construction management program, so it does go over various levels, but the Trade/Tech course were primarily at 2-year institutions.

Chairman Horsford asked if there were other sectors in demand based on workforce needs that were not reflected in the Trades/Tech cluster in Appendix A ([Exhibit C](#)).

Ms. Abba replied that she did not think there were other sectors reflected in the Trades/Tech category because a CIP code could be 6-digits long, and NSHE was using the primary 2-digits, so underneath, it included anything that falls under the full 6-digits. Looking at a CIP classification book and the definition for each of the CIP categories, they were surprisingly broad and would capture everything that falls under it in terms of a subset based on the additional digits inside the CIPs. For example, there could be a CIP 46.02 and 46.0248 that all fall under the CIP 46, so she believed NSHE covered everything.

Chairman Horsford asked about the hospitality and culinary training category. Ms. Abba replied that those courses were under the Trades/Tech cluster.

Chairman Horsford believed there should be more transparency. As an example, if a member of the Governor's Workforce Investment Board and the Governor had a recommendation to combine all the workforce boards, the board should be able to look at the cluster to see if it matched up with Nevada's 5-year plan on workforce development. At that time, the recommendation could be proposed to the Board of Regents and the Trades/Tech weight should be increased for this particular sector on renewables because it would make a real strategic investment on renewables, which he believed was the component that was missing.

Ms. Abba replied that a mapping document could be created to show all the course prefixes along with a brief and broad description of the types of courses within the CIP code. She stated that within the CIP codes there could be 100 to 200 types of courses and she did not think that type of granular level of detail was wanted.

Chairman Horsford stated that the Governor's Workforce Investment Board was in the process of adopting a new workforce plan for the state and he hoped the community colleges would be a part of the process. He requested the sector detail and whether the sector, which the Governor's Workforce Investment Board would say was the state's priority for workforce training, was represented in the weight given for the community colleges.

Ms. Abba stated that NSHE was working with Regent Kevin Melchers, Chair, Workforce, Research and Economic Development Committee, on mapping the academic programs to the industry clusters that were identified in the state's Economic Development Plan. Because of the mapping, they would be able to see the clusters and the programs currently being offered that support the cluster. She stated that NSHE hoped to have that information soon.

Ms. Gansert commented that it seemed the committee was mixing cost and policy when looking at Appendix A ([Exhibit C](#)). She believed that as far as economic development, or where they wanted to strive to do more work in a certain area, belonged in the performance piece of the model versus the cost piece. She said the System could weigh the performance piece and certain clusters higher in the performance pool, which was the basic funding for types of classes related to their cost. She said that they could be duplicating efforts if they tried to change Appendix A and make it more policy driven versus cost driven versus using the performance piece of the model.

Chairman Horsford said to Mrs. Gansert's point, it was the basic support regardless of whether it was identified as a priority area for performance and extra incentive was provided. He asked if the weight of 2.0 in the Trades/Tech category was strictly cost-driven or was there consideration for that being a priority area based on the work of Chancellor drafting the proposal.

Ms. Abba replied that the weights that were assigned in Appendix A ([Exhibit C](#)) were based on the recommendations of NCHEMS, which were cost informed based on cost studies that occurred in four states. Looking at Version 16, 17 and 18 of the performance pool, for each pool there was an outcome where NSHE measured STEM graduates, so within the STEM graduate, NSHE defined specific CIPs because those codes were used to identify it at the degree and course level. She believed that Ms. Gansert's point was well taken, which was the policy piece to incentivize the increasing of STEM graduates inside the performance pool, where the matrix was cost informed and based just on course completion.

Chairman Horsford asked if there was incentive in Appendix A ([Exhibit C](#)) for anything other than costs and Ms. Abba replied that there was no incentive for anything other than the costs.

Mr. Anderson said that going back to issue of mission differentiation and even though it was the cost informed piece of the formula, having varying weights of the different disciplines could help each institution at the appropriate tier focus on what they do best as compared to popular demand from customers to put out a new academic endeavor, which may not serve the purposes of the greater good. He thought there was certain value to having some differentiating among the weights at the base cost informed level.

Chairman Horsford asked Ms. Gansert if there should be any weighting within the tier based on mission purpose beyond performance driven.

Ms. Gansert thought that would lack clarity, become duplicative, and harder to understand, and part of what they wanted to achieve in the formula was for people to understand how it worked. She said that all institutions had core courses in different areas and she thought it was cleaner to put more weight on performance and refine the performance piece around economic development or certain things that they wanted to achieve, versus trying to build something into the cost. She said if they were to look back at the performance factor there were four pools – community colleges, universities, Nevada State College and the Desert Research Institute (DRI). She suggested that it was cleaner to keep mission and policy in the performance piece versus the cost piece.

Chairman Horsford agreed with Ms. Gansert except for the point that the cost was not the same at every institution and if they accept the premise on costs and a 2.0 value was set to courses in sciences, it was not the same cost at the state colleges, community colleges and universities, which set some arbitrary weight across the board rather than by tier of institution. He stressed that most other states treated community colleges and universities different, and Nevada lumped everything together and it was the one-size-fits-all approach. He disagreed that the cost was the same at all three tiers.

Providing a basic example to illustrate how that perceived difference in cost was addressed, Ms. Abba said if a student was taking an Economics 101 class at a community college and taking the same course at a university, under the proposed

model there was the assigned dollar value per credit such as \$150 per credit. Therefore, the community college and university were receiving \$150 times three for the 3-credit course. However, the university was receiving additional dollars through the retention of the registration fee, which was more than double, and to some extent that difference was being accounted for in the retention of the base registration fee, which was significantly different between institution types.

Mr. Anderson asked if both courses were delivered with the same academic rigor, as well as the person teaching the course.

Ms. Abba replied that was true under the same content under common course numbering, but rigor was a completely different issue and it was more difficult for NSHE to account for rigor between institutions, but in general, the content was substantially similar and had to be 80 percent similar under common course numbering.

Mr. Anderson clarified that he was asking about the rigor regarding the caliber of instructors. Ms. Abba replied that Mr. Anderson was asking her to compare two individuals that could have varying levels of experience, and there were a lot of factors that went into that. However, it was true that the academic rigor in terms of the content of the courses and what the student was being exposed to were the same between institutions.

Chairman Horsford stated that he wanted to elevate to a larger policy idea rather than treating all institutions the same within the tiers. He asked if they could take the percentage of the funding by tier based on the historic nature of how much has gone to community colleges, state colleges and universities, and apply a weight for cost based on what was appropriate within that tier, because community colleges do not have the same ability to adjust for tuition or fees that students or families pay because they were access driven. The universities did not have the same barrier and in some programs like nursing, there was a job at the end of obtaining a degree and people were paying three times as much to get their degrees through private institutions. Chairman Horsford did not agree that all program costs were the same. He understood the driving point for tuition, but that only benefited UNLV and UNR and not community colleges, or state colleges to the same degree. He wondered if the subcommittee should approach that portion of funding differently.

Ms. Gansert clarified that Ms. Abba was talking about the total fund that goes to a course because currently they were only looking at the cost component. Ms. Abba suggested that tuition is added to that and people would pay higher amounts for an education in nursing because of the high demand and jobs were available, which was where differentiated tuition could come into play. She said that the subcommittee was looking at a piece that the state funds versus the whole picture. Ms. Gansert thought that the subcommittee should look at the whole picture to see the result in revenue to a tier of institution and run numbers to see what the add was to tuition if they were to use something similar to Appendix A ([Exhibit C](#)). She believed that the cost to the universities was the same, but in reality the money spent was not because the



university had a tuition add that was expected. She thought it would help if the subcommittee looked at all funding for different types of courses and tiers.

Chairman Horsford stated that in the budget negotiations during the 2011 Legislative Session, the Governor and leadership agreed they were not just looking at state support in the evaluation of how higher education was funded. Students and families were paying a greater share of the cost, which had to be accounted for and it was part of their assumption, which may make the justification in the NSHE proposal, but was not transparent to the policy maker or the average citizen. He said that often they drill down so much to the minutia and the whole issue was lost. He said that \$900 million of non-state support that went to fund higher education was forgotten and state support was approximately \$1 billion, so the \$900 million was as important piece of the puzzle as the state portion.

Chairman Horsford asked NSHE to work with staff on the issue of demonstrating cost by tier, and the non-state support revenues that help to fund the portion that was not subsidized by state support. Ms. Abba replied that NSHE would provide that information.

Mr. Gordon stated that he was unsure if it was clear to students that the value of classes were the same at the community colleges and universities. He added that not all courses transferred from a community college to a university for a degree.

Chairman Horsford stated that the value the committee was talking about was the state support, but there was also the value to the students, which needed to be part of the discussion and policy decision. He asked NSHE to review Appendix A ([Exhibit C](#)) to see whether it covers that point.

Chairman Horsford clarified that the general education courses he was talking about were the courses all students were required to take for a 4-year degree, not the courses based on a degree program.

Mr. Haartz explained that the issue of mission differentiation that was not in the matrix, but part of the policy proposed in the System's proposal was providing an additional 10 percent weighting to support research costs and the research missions at UNR and UNLV to upper division, masters and doctoral level courses. He noted that the 10 percent weighting does not appear in Appendix A ([Exhibit C](#)) and was not considered a performance factor. The subcommittee raised the question of whether upper division courses, from a policy standpoint at NSC, should also receive the 10 percent weighting if there was comparability, which was not part of the Systems proposal. Mr. Haartz stated that the System ran a scenario, Schedule I – Universities Research Factor Increased by 1 percent, Page 31, [Exhibit D](#), that added an additional 1 percent to the base 10 percent proposal to show the effect if instead of 10 percent being applied to universities upper division graduate-level courses, 11 percent was applied to support the added cost of research. From a policy standpoint, the question for the committee

was to ask for information on mission differentiation and the 10 percent concept beyond the cost, funding it as a base cost.

Chairman Horsford asked about the upper division cost weights because the SRI International report indicated that the State of Texas threw out the cost as the driving factor for the weight the state used. Chairman Horsford asked for clarification on why costs should be used under the proposal versus taking the same approach as the State of Texas.

Ms. Abba replied that she was not familiar with the State of Texas model to offer comment outside of the fact that NSHE spent a great amount of time with policy experts and representatives from NCHEMS developing the proposal, and the cost informed approach was recommended, which was therefore recommended by NSHE. She was unsure of the result if NSHE threw out that type of cost information similar to Texas.

Chairman Horsford said that NCHEMS, in their own rationale, stated that cost for upper division research courses should not be the determining or driving factor. Based on NSHE's interactions with NCHEMS, Chairman Horsford asked how the System arrived at that decision before another 10 or 11 percent was added to the cost of research.

Larry Eardley, Vice Chancellor for Finance and Budget, NSHE, stated that Schedule I, page 31 of [Exhibit D](#), showed the 1 percent. Currently, there was a 10 percent bump for the universities for the research factor, which was in the matrix on the weighted student credit hours. He said the NSHE wanted to see what an additional 1 percent would generate for the universities. Looking at the results shown in Schedule I, based on the FY 2012 dollars the universities had, the 10 percent bump generated an additional \$500,000 for the universities, but it took away from all the other community colleges and state colleges, so it was just a reshuffling of dollars. Mr. Eardley said to get back to why they landed on the upper division and graduate level research courses, he said it seemed reasonable at the time based on NCHEMS data, but it something that was not cast in stone. In addition, he said there has been discussion that possibly the 10 percent should be on research awards or expenditures, something other than weighted credit hours.

Chairman Horsford asked NSHE to make a formal request to NCHEMS to address the issue and work with Fiscal staff and SRI International to run the scenario for the alternative approach instead of the cost influenced approach under the current scenario. He wanted to see what it would look like if Nevada used the same approach as the State of Texas.

Ms. Gansert stated that if the 1 percent was \$500,000, it meant that the original 10 percent was \$5 million, and approximately \$5 million was spread between the higher institutions, which was another way to look at it. She said they could almost carve a piece out and divide it up on those types of units so that it was more obvious versus doing a weight of 10 or 11 percent and could potentially pick a number and distribute it based on the course offerings or completions.



Mr. Eardley stated that when the System first came up with the dollars the 10 percent generated was approximately \$7 million for UNLV and \$5 million for UNR for a total of \$12 million. He would have to look to see if that was basically on the same data and if they were using the same schedule.

Chairman Horsford stated that the last 10 and 20 years should not determine the next 10 and 20 years when it comes to research and where things were going in the future. He said whoever produces the research and secures the grants was where the funding should flow and he felt they were looking at just the historical data. The institutions were not stagnant and were moving in different directions based on leadership and other directives and he believed they needed to make sure that policy allowed for that flexibility and was fair and equitable.

Ms. Gansert stated that it sounded like it was closer to \$5 million number versus \$12 million. She suggested not using a percentage and varying the number into research and using a flat amount. She said that people needed to be able to understand the formula and how things worked.

Mark Stevens, NSHE, stated that Schedule I, page 31 of [Exhibit D](#), listed the value of a 1 percent distribution on the research factor for UNR and UNLV, which was approximately \$515,000 for the 1 percent, and if that was extrapolated it could be used for any percentage.

Mr. Eardley said that he understood when NSHE ran the numbers for Schedule I it was approximately \$12 million, although he would have to verify that NSHE was running apples-to-apples types of scenarios. Looking at Schedule I, 1 percent was \$500,000 so it was easy to say that 10 percent would be \$5 million. He stated that he would work with staff to address those concerns.

Ms. Gansert added that the Operations and Maintenance (O&M) research space on Schedule I was almost \$7 million and if added to the \$5 million it would be \$12 million, so she thought that the number from Mr. Eardley actually had the O&M research and the factored O&M research space, which would be a total of \$12 million.

Chairman Horsford asked about the research space for O&M. He thought the research space on the campuses of UNR and UNLV were for that purpose.

Mr. Eardley explained that it was dedicated research space and there was no instruction, students or weighted student credit hours developed. The research space was independent research space on the main campuses of UNR and UNLV.

Chairman Horsford asked if there was space in the engineering facility that was dedicated just for research, and graduate and other students were not involved, in addition to the space that was covered under the O&M for instruction.

Mr. Eardley replied that currently most state-funded facilities were funded for O&M. He said that NSHE asked the campuses to provide an estimation of dedicated research space without instruction.

Chairman Horsford said that was really a policy decision and he needed to see justification for why it was done that way.

Mr. Eardley said that initially O&M was taken out of the calculation in the model of the weighted student credit hour to determine the dollar per weighted student credit hour. However, that had disadvantages to some institutions assuming that if it was carved out the state paid the total budgeted O&M currently budgeted in FY 2012 with state General Funds. Therefore, a decision was made to run the O&M currently in FY 2012, in Schedule C, through the weighted student credit hour and then carve out the research space that was unique to the universities.

Chairman Horsford stated that the 10 percent issue could not be answered until the subcommittee received a response from NCHEMS on whether costs should be the driving factor or whether the state should take the same approach as the State of Texas.

Mr. Haartz said the last issue with regard to weighting student credit hours in mission differentiation deals with whether additional weighting should be provided for first year entry-level courses as a strategy for retention and providing additional assistance to institutions to assist in the retention and the progression of students. The subcommittee raised the question to the Chancellor's Office, and the Chancellor's Office response dated July 3, 2012, indicated that they did not believe there should be an additional weighting from a cost standpoint to institutions toward the cost of progressing and retaining first year students.

Chairman Horsford asked about getting money in performance for students completing first year courses. Ms. Abba stated that NSHE agreed and the issue was addressed to some extent in the outcomes of the performance pool. There were outcomes that basically created incentives for the institutions to ensure that students were progressing beyond remediation and through first year courses.

Chairman Horsford asked if the weight might drop in the core courses in order to "sweeten the pot" on the performance side, because if the percentage on the performance funding was not significant enough it would not create any real change.

Mr. Haartz directed the committee to page 8, [Exhibit B](#), Formula Funding of Operations and Maintenance Costs. He stated that the funding of O&M under the existing funding formula had a specific component, a sub-formula, which primarily looked at maintained square footage, as well as improved acreage. From those numbers, the number of personnel needed, whether custodial, buildings maintenance and their associated operating costs were derived. Once the funding formula was suspended, for example in the current biennium, NSHE was provided a lump sum of \$362 million for the seven

teaching institutions; the Presidents of each institution then determined how much funding was actually expended on O&M costs once the funding was appropriated by the Legislature. Each institution prioritized how much funding should be spent on O&M and an institutional budget was created, which was subsequently approved by the Board of Regents.

Mr. Haartz stated that the table on page 3 ([Exhibit B](#)) indicated the O&M costs in the state supported operating budgets for FY 2012 were \$92 million or the \$362 million that was budgeted. The \$92 million actually reflected all revenue sources, so there could be student fees and other revenue sources such as non-resident tuition supporting the \$92 million. He said the reason he pointed out the \$92 million was that the July 3, 2012, response from the Chancellor's Office provided several scenarios that compared their current proposal – Schedule C, which includes O&M costs as part of the weighted student credit hour price. He stated that in the original proposal an institution would receive \$132.56 for every weighted student credit hour, and all O&M costs were included in that so each institution had to decide how much to expend. As a result of the committee's discussions on June 20, 2012, the Chancellor's Office ran some proposals that removed the weighted student credit hour cost to show how it changed the distribution of General Fund appropriations across the institutions.

Continuing, Mr. Haartz noted that page 9 of [Exhibit B](#), included a summary of the three schedules that the Chancellor's Office provided, which depicted how General Fund appropriations would be allocated among the NSHE institutions. He explained that on the left of the chart, for the current biennium (FY 2012-13) the Legislature appropriated the same amount of General Fund to each institution in each fiscal year. For example, UNR received a total of \$92,294,710 in FY 2012 and FY 2013. The second column on the chart showed the NSHE alternative model (Schedule C) and O&M was included in the weighted student credit hour cost. Schedule C, page 23 of [Exhibit D](#) showed a total of \$6.8 million as the O&M research non-instructional space set-aside. In addition, NSHE has included all grades A through F along with audits, incompletes with the exception of withdrawals, which derived the weighted student credit hour. The middle column showed Schedule D, which did not include a research set-aside, but was based upon how the Board of Regents improved the institutions expenditure of all O&M. The \$92 million was separated out and showed the impact on the weighted student credit hour of funding O&M separately without a research set-aside. He said that the caveat to that was that the whole \$92 million, which in the current fiscal year was funded from all revenue sources, implied it was all General Fund, which realistically may not be the case when the institutions choose to actually budget the amount of revenue. If the recommendation was to fund O&M on a Fiscal Year 2012 basis, it would carve out \$92 million from the amount of revenue that the weighted student credit hours would otherwise be divided into, which was where the main difference occurred. However, it had the effect of changing the distribution of General Fund dollars among the institutions. Mr. Haartz noted that Schedule A and B were also run using different methodologies to calculate weighted student credit hours. Instead of doing flat methodology to FY 2012, Schedule A and B actually used the 3-year weighted average methodology as the driver for the number of weighted student credit hours that each

institution would be given. He stated that the table on page 9 ([Exhibit B](#)) showed the four models and what was appropriated to the institutions for purposes of General Fund appropriations in the current biennium, and how the distribution would change if there was an O&M research set-aside and if not, it was predicated on using what the Board of Regents approved for total O&M expenditures in the Fiscal Year 2012 budgets and what it looked like if they did not use weighted student credit hours based upon a flat methodology. He explained that to make it easier for the committee to follow, staff summarized the models of projected distribution of General Fund appropriation among the NSHE institutions based on changes to treatment of O&M funding. He said that the real policy question was if there was a specific model the subcommittee wanted to run now that they have seen different permutations.

Chairman Horsford asked Mr. Haartz how many states allocate funding based on O&M in their formula. He said that SRI International provided a comparative analysis and asked where Nevada fit as far as O&M funding.

Mr. Haartz replied that many of the states that used formulas included O&M as a functional area for which funding was provided through some type of formula methodology. There were tables in the final SRI report that showed the states that had an O&M formula and how it was used. He said that not every state used a formula or sub-formula for purposes of funding O&M. Some states used credit hours or enrollments, which were basically the same thing – credit hours used to determine enrollments, which was consistent with how Nevada's existing but suspended funding formula operates to some degree. However, Nevada used maintained square footage, building space, irrespective of whether it was instruction or research and improved acreage or ground, such as lawn. He believed that athletic fields were only partly covered at approximately 10 percent.

Chairman Horsford stated that the 2011 Legislature eliminated the line item funding for some things in the operating side, and it was the Board of Regents decision along with the Presidents, to prioritize the funding. He asked if NSHE was saying that the line item portion for non-formula budgets for O&M were still categorized. For example, the business centers were eliminated by the Legislature as line item functions and he wondered if that was included in the System's O&M.

Mr. Eardley clarified that the Legislature consolidated the non-formula budgets into UNR and UNLV specifically. Currently, there was one budget for UNR and UNLV for FY 2012 and FY 2013, and the professional schools were a separate appropriation. He said the O&M that was in the UNR budget was still there, but prior to the consolidation, there was a negative expenditure recharged to the agriculture experiment station, cooperative extension, etc., where the expenditures were put in UNR's budget under O&M of plant, but then there would be a negative expenditure in UNR's budget that would be a positive in the non-formula budgets and the General Fund revenue would be in the agriculture budget along with the expenditure. Previously, it was treated as a revenue and it was basically double counting before they went to the negative expenditure. He said that NSHE has consolidated the non-formula budgets in FY 2012

and FY 2013, but for the purpose of the proposed funding formula, NSHE had to break out those appropriation areas again because now they were going back to the non-formula budget concept. For the purpose of the formula, NSHE took the agriculture experiment station, business centers, cooperative extension, and all the appropriation areas that were combined by the 2011 Legislature and broke them out for the purposes of the alternative funding proposal. The recharged amounts that were consolidated into both universities were reestablished for this purpose and UNR and UNLV were basically showing a negative expenditure. All the non-formula budgets were now basically showing the General Fund revenue and expenditure that supports that negative recharge for the purpose of the funding formula. Mr. Eardley said as NSHE was building its biennial budget request for FY 2014-15, there were discussions with the state Budget Office and Legislative Counsel Bureau staff of NSHE's intent to build a biennial budget with these appropriation areas broken out, which would make it easier in the long term because whatever happened was going to be done during the Governor's budget phase. If everything was consolidated going forward and the proposed formula methodology was approved with the appropriation areas broken out, it would be easier to get that into NSHE's request or the Governor's recommended phase. He concluded that the O&M for this purpose was identified in those non-formula budgets.

Chairman Horsford said that he did not agree and thought the Legislature and the Governor set the policy. He understood NSHE's justification and the new formula being proposed and the need to work within the new realm, but the argument was it was a Sage Commission recommendation that eliminated the duplicate budget accounts and streamlined the function. The Legislature should not be in the position of deciding line items for business centers and athletics and the role of the Board of Regents was to set those priorities, which was how the budget was approved by the 2011 Legislature. Chairman Horsford was not comfortable with undoing that process because it was a reform recommendation from the Sage Commission and now it seemed NSHE was going back to the old way in a sub-formula that was already complicated.

Mr. Anderson said the most recent SRI report showed states that were looking to emulate best practices for a formula and O&M was completely eliminated. He wondered what the alternative would be if Nevada adopted that approach.

Mr. Haartz replied that the best practice would be not to fund O&M separately but include it as part of the overall funding provided. He said that the State of Tennessee had 100 percent performance-based funding so all of their costs were lumped into that pool and not broken out by the traditional functional areas – instruction, academic support, student support services and O&M. In part the performance-based funding operated the same way in terms of total funding provided and the institution's governing board determined how those funds were then budgeted to support each of those business functions. He said the issue was if the funding was provided respective or irrespective of performance.

Mr. Anderson said that ultimately the goal was to give the institutions as much control within the confines of the mission they were intended to pursue. He believed that they had to keep focused on the end goals so they would not divert from what they were truly trying to accomplish.

Chairman Horsford asked NSHE which of the models took the approach without O&M as a factor in the basic support.

Mr. Haartz replied that the \$92 million was taken into account as a separate type of expenditure before the weighted student credit hour cost was calculated in Schedule D and Schedule J. Likewise, Schedule B was the same scenario and before the weighted student credit hour cost was calculated, the \$92 million in General Fund appropriation was assumed to be budgeted for O&M at the physical plant and the seven institutions. He explained that the difference between Schedule D and Schedule B was how weighted student credit hours were calculated. In Schedule D the weighted student credit hours were assumed to be flat to Fiscal Year 2012 and whatever the weighted student credit hours were in FY 2012 would then be budgeted for FY 2014 and FY 2015. Schedule B reverts to the traditional methodology of using a 3-year multi-year weighting methodology to calculate how many weighted student credit hours would occur in FY 2014 and FY 2015, otherwise, all other things were being equal. He said there was the \$6.8 million of O&M support for non-instructional research and that space goes away because O&M was being funded in its entirety and all grades other than withdrawals were included in the two models.

Chairman Horsford stated that O&M was probably one of the most complicated and frustrating parts of the higher education budget. He believed it was one of the perceived areas of inequity – perceived being real for some and perceived for some because they “feel it” but do not know why because it did not “pass the smell test.” He was aware that certain institutions had more space per student instruction than others throughout the System, and those institutions have historically been funded based on the space not on the percentage of students in that space. He expressed that was the crux of the issue from an equity standpoint. Chairman Horsford did not want to harm the institutions that grew their campuses, had old buildings or infrastructure challenges because it was one system and they needed to find a way that would not cause a detriment to an institution. However, to continue an inequity that was perceived by some and real to others was a problem. He believed the committee was charged under the larger policy of creating something that was more fair and equitable and the issue had to be tackled.

Chairman Horsford said it was inequitable throughout the System when he looked at the percentage of students and took out the physical space, acreage, and campus variable. He said that the SRI report indicated that Ohio was revising its formula and took out the O&M as a variable and retained some O&M for certain buildings for a period of time to not cause detriment to those institutions that relied on it. He said the State of Tennessee took out the O&M variable entirely and took an aggressive approach, so the money stayed in the funding formula allocation, which was based only on instruction.

Chairman Horsford believed the System was attempting to address part of the problem, but not really addressing the full issue. He wanted the subcommittee to look at the formula funding of O&M in real, simple, fair and equitable terms to see what makes the most sense and ensure there was no negative impact to the current institutions so they were meeting their obligations to maintain buildings that they invested in over the years. He said that this was very personal and important issue based on the late Senator William Raggio's legacy on the investment made to buildings in higher education. Chairman Horsford believed that they were tinkering with the edges rather than addressing the true allocation.

Mr. Anderson wanted to address the State of Tennessee model where the performance pool could have a stop-loss mechanism installed, which evolved over time to allow each institution to plan and adapt around the revolving ultimate mission. Addressing Chairman Horsford's comments about tinkering around the edges, Mr. Anderson said that a lot of hard work has been put into this project over many months and he could see some of the numbers looking like they were "fiddling with the deck chairs, just around the edges." If the committee was going to make a real difference they had to be bold and focus on the performance pool as a repository for some of the "elephants in the room" with a stop loss mechanism to minimize harm initially, but with a date certain that it would evolve where everybody could adapt to the reality.

Mr. Gordon stated that the comments that he heard from students about the issue, especially at the community colleges, was that it seemed capital improvements projects were funded before student services.

Chairman Horsford noted that in some way the existing model created an incentive for building and maintaining growth of buildings, which were sometimes a priority over instruction. He said that the issue was the Capital Improvement Program would propose a new building and cut a program in the same proposal, therefore, priorities needed to be set. Currently, the state was paying for O&M, and he had an issue with that at the community college level. He believed there should be a local support piece of capital funding which included O&M. He wondered if it was the state's obligation to only be on the hook to build new buildings for community colleges that serve local needs.

Ms. Gansert asked Chairman Horsford if he was suggesting that O&M only be in the credit hours so it was based on instruction and not around amounts that have historically been used or distributed based on the size of the campus and buildings.

Chairman Horsford thought he was leaning more toward the concept of Schedule C, although he did not think that schedule completed the decision. He believed it was an interim step and they needed to arrive at a long-term solution around O&M policy, whether that happened in the current biennium or not, so that the policy recommendation was clear. He did not believe any of the proposals for the distribution of General Fund appropriations among NSHE institutions went as far as needed in adjusting the formula on O&M for equity purposes.

Mr. Haartz believed Chairman Horsford was leaning toward Schedule C. He said the issue before the subcommittee and later the full committee was if O&M should be treated separately. The proposal that was reflected as Schedule C includes all O&M costs in a price per weighted student credit hour, and just like student support services or academic support, it was spun down to a unit cost. However, while the NSHE proposal intended it to be a unit cost, a price to the state, which was the basis for the General Fund appropriation request, there was space on two campuses – UNR and UNLV, which was primarily non-instructional and research oriented in nature, and therefore should there be a separate mechanism for that space, which was around \$6.8 million in the NSHE proposal. In response to the subcommittee's questions, NSHE provided information and other schedules without O&M in the weighted student hour price and the \$6.8 million set-aside for research space was eliminated, then a basis was provided tied to the Board of Regents FY 2012 approved budgets that reflected the cost of how much in terms of expenditures, \$92 million, would occur for O&M across each institution for all purposes.

Ms. Gansert said that if they were starting from scratch and building institutions it would be much simpler to use the weighted student credit hours. However, given that Nevada had institutions with older and newer buildings that varied in size, or had certain types of research, she thought it was hard to just cut to weighted student credit hours and not have something around research. In addition, this was also a formula and once the dollars were passed to the System it did not mean the System would initially spend the money on buildings and was really part of a bigger picture. She thought the committee should keep in mind that it may be difficult to jump to weighted student credit hours because Nevada had established institutions with old and new buildings. She thought there should be a transition period starting with a portion of the funding. She believed the amount was \$6.8 million for the research institutions.

Mr. Eardley clarified that the research factor adjustment had nothing to do with O&M, and NSHE determined it was basically research space and adjusted the weighted student credit hours to generate an amount, which went to research infrastructure, research facility, and equipment.

Chairman Horsford said that should be a Capital Improvement Project request – it was a policy decision and NSHE was trying to build O&M into their base formula before their budget went to the Legislature. He wondered why the research grants were not paying for that O&M if it was dedicated for research. He said of the \$900 million of non-General Fund support, a portion of that were student fees and tuition, research and grants, and the other portion was foundation and private giving.

Ms. Gansert stated that there were a couple pieces in the NSHE proposal – the \$6.8 million for research as a carve out, and the \$5 million that was based on the cost of providing classes that were more expensive in research institutions. She said that the O&M was actually a small piece and she thought they needed to consider existing structures. She agreed that when NSHE received a grant, for example, The Earth Quake Shake Table at UNR, they received a lot of that money from the federal



government, so institutions could obtain grants to build certain types of structures. The Nevada institutions have some base research facilities and NSHE needed to account for some support of those facilities. She thought that maybe there was a transition to where it was all based on student credit hours, but currently NSHE still had campuses to support.

Chairman Horsford asked why that was not in a basic O&M for all educational purposes. He said that under the constitution, the mission of the Legislature was not to provide funding for facilities, but an education for individuals pursuing higher education. He believed there was mission creep going on and the priority of NSHE was funding buildings and not education. He wondered why that was not rolled up into the total O&M portion and why an additional set-aside was needed. He was unsure of the breakdown of the \$6.8 million.

Ms. Gansert agreed that the committee needed to examine the proposed numbers in the NSHE schedules. She thought the institutions were really focused on teaching, but part of teaching for upper level, masters and PhDs degrees required some research facilities, which were expensive.

Chairman Horsford stated that the O&M funding set-aside was a new concept. He asked how the System funded the research facilities under their current O&M budget.

Mr. Eardley replied that currently the O&M formula took into consideration all maintained square feet, which included instructional, research, and state-supported facilities. Through the formula there was one position for every 10,000 square feet, one position for every improved acreage, and one position for every 4.5 acreage. Then it ran through the formula and determined the dollars for salaries, equipment and those types of things, in addition to the age of facilities. Currently, some of the research and instructional facilities were funded in the O&M function and were part of the \$92 million, irrespective of the revenue source.

Mr. Haartz clarified that General Fund appropriations, student fees, allocations, federal research funds, and indirect cost recovery, and any revenue source that the institution had available was then used to cover those costs presumably based upon a logic that each institution had, which was how O&M was currently funded.

Chairman Horsford asked if NSHE deducted the portion of dedicated research space that was put into the set-aside pool from the basic O&M, or was it an add on and O&M was covered at all facilities under the basic model and NSHE added to that for dedicated research space.

Mr. Eardley replied that NSHE was technically adding but it was not for the purpose of O&M of the facilities, but generating funds.

Chairman Horsford stressed that was not O&M but an investment in research that should be in the performance pool and then it could be applied through the

Knowledge Fund for that funding, but it should not be built into the NSHE formula of what institutions receive.

Mr. Stevens explained that NSHE was basically allocating \$362.4 million in state General Fund dollars that were currently budgeted in FY 2012. Therefore, after the per credit hour calculation, small institution factor, and research O&M factor, NSHE still ended up at \$362 million, so General Fund dollars were not being added and the total amount of money that was currently appropriated was what NSHE ended up with in the NSHE alternative model. He said all of that was taken into account and NSHE was not trying to add to the \$362.4 million when they get to the end of the formula calculation. He said the research O&M was included in the \$362.4 million.

Chairman Horsford said that the O&M as described on page 4, in the NSHE proposal, A New Model for Funding Higher Education in Nevada, was different from what Mr. Stevens explained.

Mr. Haartz stated that Chairman Horsford was referring to the original proposal – A New Model for Funding Higher Education in Nevada, in which the set-asides were discussed in the General Fund model – the small community college factor, research factor, and O&M. It appeared that the specialized research facilities were not included in the weighted student credit hour and the cost of the O&M for the specialized research facilities was removed from the weighted student credit hour price calculation and funded separately. He believed the confusion as described in the original proposal appeared to differ from what Mr. Eardley explained that it did not support O&M costs, but the cost of research.

Mr. Stevens clarified that it was O&M space dedicated to research functions at the institutions and was not supported by any instruction. The O&M per credit calculation was based on instruction and weighted student credit hour. He said that NSHE tried to take out space that was dedicated completely to research that did not have an instructional component, and space with an instructional component or support function was included in the overall per credit amount provided to each institution based on weighted student credit hours.

Mr. Eardley thought the issue was the cost of O&M for the specialized research facilities that were removed from the weighted student credit hour price calculation and funded separately. He did not believe his previous statement was incorrect and there was no removal from those dollars from what was budgeted.

Chairman Horsford thought what was happening was there was an adjustment to the sub-formula based on existing practice and NSHE wanted to come up with a rationale to backfill that based on research priority, which had an impact and advantage to certain institutions in the System. Chairman Horsford believed that was the problem with including those inherent policy decisions in a formula because then those decisions stayed. He would prefer to call it what it was, which was hold harmless or a failsafe mechanism, and move in the direction of Schedule C without the set aside with the

weighted student credit hour basis in the methodology, because he believed that gets to the long term issue and was fair and equitable. He believed a stopgap needed to be proposed and not buried within the formula. Great Basin College and CSN were provided a funding portion, and TMCC was provided additional funding over the formula, which made it more transparent.

Mr. Gordon asked if institutions could identify more research space in the future and then use the set aside as a percentage rather than a dollar amount. In addition, he asked if the formula could be changed in the future.

Chairman Horsford said that inherently the problem was if that was created as the incentive then institutions would want more space to get more dollars to support the research space, which he did not think was the incentive they wanted to create. If they wanted to cover the costs for space for all instruction, including research, then he thought that could be done in the basic formula. Chairman Horsford did not think it was the right direction to add another incentive around facilities. He added that the state could not continue in the current direction because he was unsure how the state would fund higher education today, let alone by creating new incentives. He wondered how the research-dedicated space was defined and more transparency was needed on those decisions. He was aware of social workers that were working with nonprofit agencies in the community, which did not count as research space under the proposed formula.

Mr. Eardley clarified that this was an effort to help the universities in their research capacity as far as infrastructure. He said that NSHE talked to representatives from each campus, because these were facilities that did not generate weighted credit hours, but it was a methodology to see if NSHE could carve out some of the current dollars to help universities with their research infrastructure. He stated that when NSHE ran the models they did not have time to do an in-depth analyses and there were no external reports available to show what was research based for each campus. He said NSHE tried to determine independently what was research based and dedicated research based at the institutions when the campuses did their property inventory. If the proposal for a better model for O&M moved forward, NSHE would have to refine the meaning of dedicated research space and implement a policy to deal with that so there was consistency in reporting the information. In addition, an independent review would have to be conducted to ensure the information was accurate. However, for the purpose of the model in the purposed formula, the campuses provided that detail and NSHE had to determine if it was accurate or consistent among the institutions. If the proposal was adopted, NSHE would have to ensure that the information was consistent and policies and procedures were in place to determine research space.

Chairman Horsford asked the representatives from the System to work with Fiscal staff to update the schedule to reflect O&M in the weighted student credit hour cost, without the research set-aside for all grades. In addition, the committee would be interested in options on a recommendation or approach that could help mitigate impact aside from the O&M formula.

Mr. Haartz directed the subcommittee to page 4 ([Exhibit B](#)), Primary Driver of Formula Funding: Enrollments versus Course Completions versus Successful Course Completions, as opposed to essentially using enrollments in which all credit hours are counted with the exception of withdrawals irrespective of the outcome of the student's success. He stated that this topic was discussed by the subcommittee and full committee on several occasions, and the Chancellor's Office has provided information, as well as SRI International, with regard to how the federal government and various federal agencies treat completions versus successful course completions and the practices of other states. Of the 31 states that utilize funding formulas to fund all or part of their systems of higher education, approximately 27 states utilize a funding formula with student enrollments calculated based upon credit hours. Two states (Louisiana, New Mexico) utilize completion as the metric and typically include all grades, while another 2 states (Ohio, Tennessee) utilize successful course completions and required a grade of D- or above. He said that Nevada would be on the forefront if that was a policy decision that was being adopted in the state, because the common approach in funding formula's was Nevada existing formula of credit hours. Mr. Haartz stated that page 4, [Exhibit B](#) displayed information on students maintaining federal student financial aid and at an NSHE institution, students had to maintain a 2.0 grade point average, meet standards of pace or success towards a degree, successfully complete 66.7 percent of the courses in which they enroll, and cannot exceed 150 percent of credit hours required for their degree.

The Department of Veterans' Affairs (VA) information was provided by the Chancellor's Office and the VA would not pay for courses and required repayment of courses that are not required towards a degree, for which an "F" grade was issued due to non-attendance without mitigating circumstances, and incompletes unless the "I" is revised to an "F". However, the VA would pay for a student to repeat a course when they received an F, NP (no progress) and W.

Mr. Haartz said that the United States Armed Services, identified as Navy, Army, Air Force, and Coast Guard had slightly different standards and would not pay for F grades or non-passing (N) grades, I grades in effect longer than six months, voluntary withdrawals (W), and D grades at the graduate level. He said there were some differences, but similarity at the federal level, and it appeared that only two states (Ohio, Tennessee) utilized the definition of a successful course completion for purposes of counting weighted student credit hours.

Mr. Haartz referenced page 5, ([Exhibit B](#)), which showed the totals for the weighted student credit hours associated with particular grades at certain institutions, which were currently included in the weighted student credit hour count in the NSHE proposal. Page 6 of [Exhibit B](#) contained a summary table – the left column on the chart represented the General Fund appropriation each institution currently received in their main instructional budget. The second column (Schedule C) represented the System's proposal in which all grades except withdrawals were included, and weighted student credit hours were budgeted as flat to Fiscal Year 2012. Based on the request of the subcommittee several models were run; Schedule F held all things the same except to

remove the F grade from the count of weighted student credit hours at institutions, and the change in General Fund distribution as a result of just removing F grades was reflected. Schedule D provided two alternatives from the Chancellor's Office in which all grades F, incompletes (I), audits (AU) and unsatisfactory (U) and withdrawals (W) were excluded from UNR, UNLV, and NSC's count of weighted student credit hours, but while everything else was removed at the community colleges, the F grade was given a weight of 75 percent retained value, and in Schedule H it was given a weight of 50 percent retained value.

Mr. Haartz stated that the subcommittee may wish to ask the Chancellor's Office to explain the rationale for providing the 50 percent and 75 percent weighted value because there was not a lot of information provided in the response explaining why the grades were weighted that way. Mr. Haartz said that the subcommittee could see which grades were counted in the count of weighted student credit hours and how that dramatically affects the count of those hours, when there were 190,000 F grades projected to occur in FY 2012, which could have an impact on the distribution of General Fund appropriations across institutions depending on the policy decision made. He said that previously the committee heard discussion about the different types of F grades, such as those associated with non-attendance versus those instances where the student attended class and completed assignments yet still failed to pass the course. The prevailing public comments indicated that those F grades should be treated differently, but the decision has not been addressed by the subcommittee or full committee.

Ms. Abba directed the subcommittee to Schedule F, page 6 of [Exhibit B](#), which showed the impact to institutions when the F grades were removed in addition to withdrawals, which resulted in a more severe effect on community colleges. In an effort to mitigate some of that impact, NSHE ran Schedule G and H by basically placing a value weight of either 50 percent or 75 percent on the F grades at the community colleges.

Mr. Haartz said it was basically the type of scenarios or models the System wanted to run and what the impacts were to the model. He said that SRI would have an interactive model at the August meeting to determine how the policy decisions affected institutions, which could be interpreted as purely an academic exercise to show the impact of the models.

Ms. Gansert said if NSHE moved away from a carve out for O&M and the weighted student credit hour was greater, the impact would be even greater. Therefore, whatever direction the committee was going with the numbers, it would have a larger magnitude if they moved toward a weighted student credit hour amount. Ms. Gansert was unsure how to approach the issue because a lot of effort went into classes even if the student ultimately failed. She asked NSHE to provide a breakdown of the individual students who actually attended classes and tried to pass the course versus the students that withdrew but never filed the paperwork to withdraw from a class.

Ms. Abba stated that she did not have data on the withdrawals for students that received F grades but attended class, and F grades for non-attendance. She believed that NSHE could identify those students based on a certain date of withdrawal.

Ms. Gansert said that it was important to differentiate that data because she thought it meant that resources were being spent on trying to help the students versus the students not being in class and utilizing what was available.

Mr. Gordon stated that they had to determine successful completions and if the F grade needed to be part of the discussion if NSHE was moving toward a model that included successful completions. In addition, if the model included student credit hours, was that going back to enrollment and not changing the formula from enrollment to completion. If student credit hours were going to drive the current formula then there would be a reason for institutions to take more students and not necessarily graduate or successfully complete more students, and assuming a flat allocation from the state, one would presume that tuition would increase in the future.

Chairman Horsford stated that the performance piece could have an incentive for completions based on the direction of the NSHE proposal and work of the subcommittee. He also liked the concept of the progress points and not waiting until students obtain a degree, but seeing the progress of students from their freshman year. He believed that part of that issue would be addressed if they get the performance piece right and there was enough of an incentive to the institutions to change their behavior.

Mr. Anderson stated that historically private sector America with tuition reimbursement programs for employees do not reimburse for failed grades regardless of the effort or the input from the institution. In addition, most parents who support their children's tuition would not support the F grades. He stated that paying for F grades was not a performance-based system. However, if the committee focused on how many students were getting off of academic probation as a metric for the institutions that would be unduly impacted by eliminating the F grade reimbursement, and the focus was refined on that score, it would be a much better performance-based outcome in the long run with the transitional phase to make sure it was not horrendously impactful very near term.

Chairman Horsford said that he was aware of a bill that would add an additional count day for K-12 in the second half of the school year not only in September, as an incentive for schools to actually keep the students in K-12. He asked when the count day was for the higher education system because of the fact that students withdraw from courses and the System was not reimbursed for those withdrawals.

Ms. Abba said NSHE had very defined procedures for counting "heads" and FTEs – a preliminary count was done early in the semester, typically the second or third week of school, and then a final count was done at the end of the semester. She indicated that count was then used to develop the NSHE official enrollment reporting that was posted on the NSHE website. She said the count followed a very detailed protocol for the

purposes of consistency to make sure that everyone was counting heads on the same day, depending on the institution type. Ms. Abba indicated that the preliminary count for the fall semester was October 15, and the final count was done after the semester ended.

Chairman Horsford asked if NSHE was funded after the October 15 enrollment count date. Ms. Abba clarified that NSHE was funded after the end of semester data.

Chairman Horsford asked if NSHE was funded if a student withdraws or drops a class before the October 15 count date. Ms. Abba replied that currently part of the challenge was that institutions had varying withdrawal dates, which meant that if a student withdrew before the withdrawal date, it was just expunged from the record and not shown in the NSHE taxonomy files. Currently, if a student withdraws after the withdrawal date, it was included in the files and the count, so for the purposes of the alternative model, NSHE has pulled those students out.

Chairman Horsford stated that he was not talking about the alternative model, but trying to get a sense of how it worked for funding and how NSHE received money for the state support and the data of enrollments it was based on.

Mr. Haartz clarified that when the 2011 Legislature suspended the use of the formula, it essentially block granted the funding to the institutions regardless of the number of students they were serving since enrollments and students were uncoupled from the funding decisions. Therefore, the institutions were funded irrespective of the number of students. Historically, FTE students were the driver and based upon a count of credit hours and the formula that was suspended was actually weighted based upon cost, clinical courses costing more than high cost courses, versus medium cost courses or low cost courses. The Chancellor's Office would take actuals and use the 3-year weighted average methodology, calculate a projected number of students in each fiscal year for each year of the upcoming biennium, which would suggest a need in terms of the amount of funding that each institution should receive and that count of student FTE would be the basis for distributing General Fund appropriations among the institutions. However, once that became suspended, it essentially did not matter if a student withdrew or received an F grade because the money was appropriated.

Chairman Horsford understood it was a two-step process and the projection was one process, and obviously there was going to be a new formula. He said the recommendation was weighted student credit hours, which was primarily based on enrollment.

Ms. Abba replied that the old model was based on enrollments and the new model was based on course completions. She said the NSHE has defined course completions broadly as F grades and above, so basically non-reported grades and withdrawals were excluded.

Chairman Horsford said the enrollment count was done on October 15 in the fall semester and after the end of the semester. If there were 30 students on October 15 and 20 students after the end of the semester, 30 students were projected and the Legislature funded 30 students, meaning the funding was allocated for the 30 students. However, at the end of the semester based on the actual students that complete – NSHE was paid for the 20 students regardless of the grade.

Mr. Eardley stated that historically with the current but suspended formula, NSHE had a preliminary enrollment count in the beginning of the semester, and an official count at the end of the semester. Therefore, for the formula funding purpose, NSHE used the official enrollment count, which was at the end of the semester, so if students dropped out or received F grades, they were counted for the grades because now NSHE was funded for the credit hours that were generated at the end of the semester. Essentially, NSHE took the following spring semester and annualized it and did a 3-year weighted average based on the current year and going back, and projected it out for the requested funding based on those end of the semester enrollment credit hours.

Chairman Horsford stated that there was a distinction between projection and preliminary and when NSHE actually gets to draw down or request funding based on completion, which was true under the old formula and the NSHE proposed formula.

Ms. Abba said that Chairman Horsford was correct but it was done during the process of developing the budget where a 3-year weighted average might be used, and not done on a semester-by-semester basis.

Mr. Haartz stated that an easier way to think about it was that the older process counted credit hours to be attempted, students enrolled and signed up for a number of courses, so the Legislature funded credit hours to be attempted. The proposed NSHE model was based upon credit hours completed, maybe successfully depending on how that word was defined – attempted versus completed. He noted that SRI indicated that there were some states that used a point in time census system similar to Nevada's K-12 system. Indiana used the last day of class and Louisiana used the 14<sup>th</sup> day of class, which was very similar to the K-12 system in Nevada. Other states were inclined to use actuals for a particular year and a year-over-year or multi-year average approach.

Mr. Anderson asked if students received credit hours on their transcript with an F grade. Ms. Abba replied that was correct and added that the grade does not apply toward their degree.

Chairman Horsford said that the subcommittee was blending the issue on course completion with the weighted student credit hour and they were tied together.

Mr. Haartz stated that the NSHE proposal for weighted student credit hours was flat to Fiscal Year 2012. Therefore, ultimately if the committee decided that rather than using a multi-year average approach and weighted student hours were based upon a flat



point, then they would have to decide the point in time to which they would be flat. He said it could be flat for Fiscal Years 2014 and 2015, and they could go back to FY 2012 or recommend that the 2013 Legislature and the money committees consider FY 2013 preliminary actual, which was what the Legislature has traditionally done because those would be the most current credit hours available.

Chairman Horsford said that based upon the budget reductions, program eliminations and other things that have occurred in the System over the last five years due to the economic downturn, he believed it was a good argument to build off the most current credit hours and data. He asked why the NSHE proposal for student credit hours was flat to FY 2012 and not current.

Mr. Eardley said that in the models that NSHE ran, because the enrollment has been up and down, when a 3-year weighted average was used, most of weight goes into the most current year, which was 50 percent. Therefore, if enrollments were down in that year most of the weighting goes to that year and when projected out they come up with a 3-year weighted average.

Chairman Horsford asked NSHE why they did not start with FY 2013 and use a methodology for averaging that was not the old template. He asked if the percentages could be changed for the three years. Mr. Eardley said it could be changed and the proposed weighting was up for discussion – it could be a 4-year or 5-year weighted average or a straight average weighting. He said the purpose of the NSHE model was because they were trying to show the pot of money and the result could be seen based on current enrollments. If a 3-year weighted average was used, many of the institutions were negative because of the weighting, which would compound going forward, and was similar to being penalized for the next three years for a bad year, which was the problem with the current formula. He said it worked when revenues were up, but it was the same thing with enrollments – the 3-year projection was affected when enrollments were down.

Chairman Horsford stated that his frustration as a policy maker and someone who has worked on these budgets was that NSHE proposed a projection and the Legislature funded off that projection and NSHE believed they were entitled to that money. Chairman Horsford stressed that NSHE was entitled to the money based on the enrollment or in this case completions, not based on how NSHE may have built their budget. He said that was not how the nonprofit agency he runs worked and he had to adjust for the reality. He proposes his budget to his board in January and if the nonprofit revenue or expenses changed, he had to deal with that reality not what he proposed to the board in January. He believed it was a management issue and part of the disconnect in state government and in particular the System. When the Legislature approved NSHE's budget, that budget was based on NSHE's projections and if certain institutions within that do not meet the projections, it was not the state's fault, and was the reality that the institutions were working from. He believed NSHE needed to start with the most current enrollments (FY 2013) and work with staff to evaluate a fair multi-year averaging, which helped address the volatility within an institution.

Mr. Haartz clarified that FY 2012 actuals would be the most current data at this time. Fiscal Year 2013 data would be available when the Legislature was in session and they could use that data. Based upon the policy recommendation that the subcommittee and the full committee puts forward, the question was the methodology they wanted to use – a multi-year or flat methodology. Mr. Haartz stated that he could provide a point in time census using the K-12 process, and reiterated that the most recent data was FY 2012 actuals.

Ms. Gansert agreed that FY 2012 was the most recent data and the whole year available when evaluating this methodology. In addition, there was concern with the D and F grades and grade inflation, and if a system was set up to get the resources. She did not have an answer because she believed F grades were unacceptable, but there were resources going toward for those students and concern about grade inflation.

Chairman Horsford said that he shared the same concerns regarding grade inflation. He asked for a more thorough explanation on the process because essentially what he thought NSHE said was that the System was only paid if the student attended class regardless of the outcome or grade they earned.

Ms. Abba stated that based on Schedule C, where the F grade was included, currently F grades included non-attendance students, so NSHE would have to remove those students from the model based on the testimony of Ms. Gansert.

Chairman Horsford stated that the System does not deserve to be paid for students for non-attendance. In addition, there was the situation where students attended class, completed assignment, etc., yet still failed to pass the course and whether the System should be reimbursed for those costs. Based on the comments from faculty on the issue of grade inflation, which was legitimate even based on research from SRI, they would be breaking ground in a new direction if they did not do that. He was sensitive to the fact that was not the way it would be treated in every environment, but higher education was unique and it was a place where students should go to learn and fail. However, the question was should the state be on the hook for the F grades, particularly for the community colleges, which was part of their mission. He said that Mr. Gordon raised an important point for upper division courses, and the fact that students could not get F grades and complete a graduate degree.

Ms. Abba believed that Mr. Gordon indicated that F grades were not issued in graduate level courses and she was not familiar enough to know if that actually occurred in practice. She said there was a resource dedicated to that student regardless of the grade, so they were included in the model for both graduate and undergraduate classes.

Chairman Horsford said the issue for universities was students through tuition and fees were paying a greater share of that so they had more “skin in the game.” Community college students were still paying even if it was a lower amount, but for those students that may be all they could afford. He thought the non-General Fund part of this was a factor in that the students and family members are also paying even when the student does not complete the course.

Ms. Gansert commented that policy objectives were really set in the performance pool for completions and they would get more weight or resources if students were able to graduate with an associate degree or bachelor’s degrees, which reinforced the thought that they needed to put a higher percentage to that, because she thought would affect the outcomes and get more completers.

Chairman Horsford asked if the subcommittee wanted to move forward with the NSHE recommendation for an adjustment for students that received an F grade for non-attendance and a clear recommendation that the policy incentive was for completion, which was critical to the issue of course completion. He stated that a performance pool was created when the last study was done and was never implemented, which created an impediment to it working properly. He believed the committee could make a suggestion to the effect that if the Legislature and Governor chose not to create a clear benchmark and indicator for completion or progress, and were not willing to invest on the performance pool side to get the outcomes, then the policy on course completion should be revisited because the two go hand-in-hand.

Mr. Anderson asked if it was practical to track students that attended classes, utilized the resources, and complete assignments but still failed to pass the course as compared to the students with non-attendance to ensure the institution was reimbursed for that student.

Ms. Abba replied that by only removing the F grades for non-attendance, NSHE was making the assumption that students who received an F grade were included in the model if the institution had dedicated resources.

Mr. Anderson said that he was looking for substantiation and how the student that was diligent in their course attendance, studied, and utilized institutional resources, but still failed was documented.

Ms. Abba replied that the data elements were quantitative data elements, so it was binary codes. She said the Mr. Anderson was asking something that was more qualitative and unfortunately, inside of the current NSHE databases, they do not track that type of data. However, they could go back and look at a group of students to see what went wrong, although she was unsure they would be able to do it on a system-wide basis. Ms. Abba said that they could look at each institution and a random sampling of students that received F grades for attendance.

Chairman Horsford said that Mr. Anderson raised a valid point that they could not incentivize the System to “game” the system where the student who received an F grade for non-attendance was accounted for, but the student who received an F grade, and the System was now trying to justify why they still should be reimbursed. He thought they could add a recommendation for the Board of Regents to set a policy for this group of students and come up qualitative steps to ensure that the System and institutions were meeting the intent of the Legislature.

Ms. Abba said she qualified that by saying that qualitative data element assumptions on what was happening in terms of the resources.

Chairman Horsford stated if NSHE did an enrollment count after October 15 in the fall semester, they should be able to measure whether the students were attending classes, or if the instructor followed up with support. While it might not be in the NSHE data system it should be captured somewhere by those institutions, which he thought was the role of the Board of Regents not the Legislature.

Ms. Gansert said that the committee heard from multiple sources that the performance pool worked best if it was part of the existing funding, so there was a suggestion that there might be extra money for performance pool. She was unsure if there was going to be more overall funding for the institutions, but SRI and a professor from UNLV said that at a minimum to change behavior and really have an impact, the performance pool had to be carved out of the base funding. She thought that there would possibly be an expanded pool of funds, but typically the performance pool was carved out of that entire pool and not an add on.

Chairman Horsford agreed with Ms. Gansert with the condition that the performance pool starts out with a carve out of 10 percent to 15 percent of existing funding. However, he did not want any future Legislature to think the performance pool piece could not grow, because it was the prerogative of future Legislatures or the Governor to decide whether to invest more in performance pool funding and not increase basic support.

Ms. Gansert thought there was a difference between expanding the overall pool of funds and how it was divided, versus having an add on that becomes somewhat optional. Typically, from what she heard from previous presenters, it worked best if there was a larger pool of funds and it was carved out.

Chairman Horsford said if they started at 15 percent in the upcoming biennium, but wanted to move to 25 percent in FY 2016, the extra 10 percent growth could come from new dollars if that was the decision of future Legislatures.

Ms. Gansert said it depended upon how people wanted to operate. Typically, if they operated within, they may want to increase overall funding by a certain percent and then take 25 percent of the total. She stated that each Legislature would make decisions on how to fund things, but for current purposes, it was about the pool of funds available in carving out a piece.

Chairman Horsford said they could go two ways – that 25 percent could be increased in the base and not in new funding, but also the percentage could increase through new and dedicated funding for performance driven initiatives.

Ms. Gansert said if they add \$100 million and took 15 percent, they would start out with \$15 million. The next time if they had flat funding but wanted to increase it to 25 percent, it would be \$25 million, but if overall funding was increased from \$100 million to \$110 million, the formula changes and it could be 15 percent or 25 percent of a larger number. However, for this biennium and looking forward, and based on their understanding from various sources, it typically worked best if it was part of the original pool of funds so it was not new funding that could be eliminated if there were budget cuts.

Chairman Horsford agreed that they were not far off, but he wanted the record to be clear that it was the decision of future Legislatures on whether it was existing or new funding. He said this committee would make a recommendation based on flat funding and what was currently available, but the record should be clear that there were multiple approaches that could be taken.

Mr. Anderson supported the comments from Ms. Gansert and thought a philosophical embrace of performance funding was needed, which in fact comes out of the base budget and does not become an arbitrary decision. He hoped the committee decided that over the years, with safety nets in place to support the institutions in transition, they get to a point where the vast majority of funding was from the institutions succeeding on behalf of the student population and the state's economic needs.

Chairman Horsford agreed and when he proposed the Knowledge Fund, he said it should come out of existing funding and a portion of the funding should be carved for that purpose. However, because of budget cuts NSHE felt that new redirection of funds at the time there were cuts would be too much at once. He stated that was why the Knowledge Fund was created but was not funded, and now NSHE was saying performance knowledge based funding was important, and they had to start with the base because that was what they had. He hoped the System does not change its position on that, because they were very adamant about not taking that approach during the closing of 2011 Legislature budgets.

Chairman Horsford stated that the next meeting of the subcommittee was August 15. He said that SRI was directed to develop a tool to run different scenarios based on the discussion of the committee on the various policy areas, including the specific weights for each category. He asked SRI to work with staff and the System and provide a revised document that reflects the direction of the committee, and to run models with the revisions of the subcommittee for the August meeting. Chairman Horsford said that the committee would be able to review the models at the August meeting and finalize the recommendations on the remaining policy areas.

#### **IV. PUBLIC COMMENT**

Dr. Robert O' Meara, Professor, Political Science, CSN, said that from a professor's point of view he wanted to respond to earlier discussion on the withdrawal (W) grade versus the F grade. He began by stating that students could withdraw from a course until mid-point in the semester, which was easy to do. Dr. O'Meara stated that teachers at CSN enter letter grades or a W in their attendance book at the end of each semester. He believed that the major tendency for professors, primarily himself, was to look at the grade situation of the student to see if the student was participating and attending, or if the student dropped out early in the semester, which was considered a W. He would give a student the benefit of a mix-up at the registrar's office, a medical situation or a move out of state, and rather than punishing them with an F grade, his tendency was to give the student a W, which was better on their transcripts. On the other hand, if the student attended class and participated, professors had to decide what grade to give, which in this situation he believed the F grade was appropriate. If the student was attending class and willing to be a part of the class, given whatever unsatisfactory results, would warrant an F grade. He said that quite often the F grade was worth more than a C or D grade because it woke students up that were not paying attention, or putting in the effort or hard work to excel in the class. By getting a D grade a student could skate by and be fine with passing the course, but the challenge of an F grade was many students returned the following semester and did much better, sometimes getting an A or B, which turned around their academic careers. He said that there was a lot of value in an F grade and he hoped his thoughts helped address some of the subcommittee's concerns. Dr. O'Meara reiterated that a W was given to students for non-attendance or failure to submit assignments, but there was no need for an F grade in this situation.

#### **V. ADJOURNMENT.**

Chairman Horsford adjourned the meeting at 1:12 p.m.

Respectfully submitted,

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Donna Thomas, Transcribing Secretary

APPROVED:

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Steven Horsford, Chairman

Date: \_\_\_\_\_

Copies of exhibits mentioned in these minutes are on file in the Fiscal Analysis Division at the Legislative Counsel Bureau, Carson City, Nevada. The division may be contacted at (775) 684-6821.