

SENATOR JOHN LEE'S OPENING REMARKS BEFORE THE COMMITTEE TO STUDY THE
FUNDING OF HIGHER EDUCATION (SENATE BILL 374, 2011 LEGISLATURE)
WEDNESDAY JANUARY 11, 2012, 9:00 A.M.

Chairman Horsford and distinguished members of the Committee – Good morning, and thank you for this opportunity to discuss S.B. 374 and the reasons I sponsored the bill and the Legislature passed it. I appreciate your hard work and your careful attention to ensuring an adequate and equitable funding formula replaces our tired and old formula, which has been proven to treat southern institutions unfairly, discriminate against our state's minority populations, and fail to allow our institutions to meet our repeated demands to be more entrepreneurial and self-sustaining.

The bill that establishes this committee originated as an attempt to provide a more permanent solution in light of the numerous attempts in past legislative sessions to fix the higher ed funding formula. This is not a new problem, and many members of this committee have voted for legislation during past sessions to provide temporary funding to close the historic inequity gap. In particular, our efforts have been centered on alleviating some of the formulas north/south bias as well as unfair treatment of community colleges. Under Chairman Horsford's leadership, we passed a bill he sponsored to cure some of the funding formulas unfair treatment of the College of Southern Nevada (CSN) and UNLV. According to numerous studies the biased funding formula has left historical inequities in funding of over \$20 million for CSN and \$25 million for UNLV. Of all state institutions, CSN receives the least amount of funding but serves the largest number of students. Both CSN and UNLV provide the most opportunity for our state's most vulnerable communities that are disproportionally located in the south.

The formula's unfairness is compounded when you consider the fact UNLV generates 48% of all tuition dollars in the system but only receives 34% of the state's higher ed budget, whereas UNR contributes a little more than half the amount UNLV contributes (27%) but UNR still receives the same amount of the higher ed budget (34%). UNR's medical school is commonly cited as the reason for this unfair treatment, but they fail to mention some of this funding is used in the exchange scholarship program with California students where non-resident students from California do not pay the higher tuition. Effectively, students in the south are not only subsidizing Nevadans educated at institutions in the north, but also subsidizing non-resident Californians studying to become doctors. Unfortunately, the inequity built into the funding formula continues, and once again it is incumbent on our body to step in and provide a more permanent remedy. The report and recommendations of this committee will be an essential step in creating a new funding formula that is easy to understand, equitable in its application, and promotes entrepreneurialism and sustainability.

Our Legislature has passed and funded previous bills, like Senator Horsford's, to rectify the formulas inadequacies. It is important to note these legislative attempts were necessary because the Nevada System of Higher Education was unwilling or unable to push for formula reforms. Understandably, institutions disproportionally funded by the formula they created have little desire to change the status quo. When I first started working on the legislation that created this body two camps emerged – those actively engaged in turning a blind eye to the formulas unfair treatment, and

students who desperately needed the formula to be revised but were deeply concerned that opening the formula back up to revision could lead to further unfair treatment. While in Carson City, students told me the formula was written in an unfair way, the unfairness has been protected and even promoted at every turn, and they were concerned as one student said "about letting the wolves back into the henhouse to rewrite new rules." I often remind them that Chancellor James Rogers worked tirelessly to cure these inequities; however, I completely understand why people believe a system committed to administering and protecting an unfair formula should now be treated as a neutral player trusted to now correct the wrongs it helped create.

I have expressed these concerns with NSHE and Chancellor Klaich. I know he is committed to ensuring our institutions are treated fairly and provided the resources they need to achieve their ambitious missions. I am glad to see that today, as this body begins to open up the formula and commences the important discussion of fairness, NSHE will present a alternative funding formula. It is my understanding that the formula NSHE will present is based on the findings of a May 2011 evaluation of the funding formula conducted by their consultant MGT of America, Inc. It is also worthwhile to note that MGT is the only consultant that has answered this body's RFP and many people are concerned whether a handpicked consultant for NSHE responsible for the current formula is capable of preparing the impartial and unbiased reports necessary for this committee to properly create a new formula that treats all institutions fairly. While I am heartened by NSHE's proactive approach to our process, there are some concerned that NSHE is trying an end around to circumvent the process and attempting to influence these proceedings with their handpicked former consultant before this body even begins deliberations.

I on the other hand, believe it is important that NSHE contributes to our process and gives this body some of their ideas to throw into the mix. The years spent trying to correct the inherent unfairness of the formula, the countless studies commissioned, and reports authorized may collectively add up to a financial windfall for outside consultants, but taxpayers and students are left with an unfair formula and a funding gap between institutions that continues to widen.

When I first started my plumbing business, I used the family's station wagon as my work vehicle. Strapping 20-foot sections of sewer pipe to its roof was not ideal, but we made it work. It was a great vehicle and I used it to build a successful business, but the years of wear and tear took their toll and after several costly repairs one thing became apparent it was time to retire the worn out old car and invest in a new vehicle more practical for a growing plumbing business. Our state has an old worn out formula that we have tinkered with, patched up, and tried to correct, but Nevada's population explosion and the evolving missions of our institutions makes it clear we need a new market oriented funding formula that addresses the core issue of underfunding the institutions that serve the region, which is home to three-quarters of our state's population and responsible for generating over 85% of the revenues in the state's General Fund.

I have three broad points, which are discussed in greater depth in my Official Remarks, which have been prepared for delivery to this body.

First, we need to start with stated goals. Nevada's new goals for college attainment and economic diversification establishes clear expectations for this committee, state policy makers, higher education, faculty members and the general public. Nevada needs more college graduates, a skilled workforce, and more research grants. All these elements create a strong economy. Clearly,

state education goals are linked to state economic needs. With clear goals, Nevada can better align higher education policies with expectations. We need goals for:

- o Incentivizing specific performance to meet state goals;
- o Encouraging entrepreneurial behaviors, with accountability;
- o Creating a funding framework targeting "at-risk" populations so they are included in achieving the state's goals; and
- o Understanding direct instructional costs and full costs per student FTE as a basic unit of institutional transparency.
- o Incentivizing competences and completions: quality as well as productivity;
- o Allowing tuition and fees to be institutionally controlled;
- o Inviting institutional flexibility to adapt and network internationally;
- o Aligning what institutions have to offer with the advancement of state economic development sectors; and
- o Encouraging regulatory changes that, with appropriate accountability, loosen control for a new funding model that is performance and outcomes based.

My second broad point is the formula needs to – Make Money Meaningful. In 2001 a recommendation for 2 percent performance funding was provided by a committee very similar to this one. When 2 percent of the funding is based on performance and the other 98 percent is based on enrollment, institutions will focus on enrollment and the state's goal of performance based funding will not be achieved. Such a small percent of funding will not drive change in institutional behavior and produce the outcomes Nevada needs. The present formula is not market oriented. For example, tuition collected at individual institutions is centrally redistributed in a manner that effectively deducts higher education contributions from the state General Fund:

- o This simply turns students at some institutions into taxpayers who are subsidizing the education of students at other institutions.
- o It provides no guaranteed funding floor for higher education.
- o It provides no incentive for institutions to respond to market demand. Why should the colleges and universities spend resources and time recruiting students from out of the state or out of the country if doing so only ends up costing them in the end?
- o It only focuses on outputs and does not consider inputs. There is a huge discrepancy in general fund revenue that each institution contributes.

Third, the formula needs to – Recognize Difference of Role and Need. Many prior attempts at formulas and performance funding failed to take into account differing missions of various types of institutions, the types of students served, the starting points for institutions, and the complexity of segments of instruction (such as, lower division through advanced graduate) with a broad matrix of disciplines and their costs. These issues need to be addressed in the formula revision, particularly the starting points for some institutions. The committee's awareness of the differences of roles and needs among Nevada's colleges and universities will increase the chances for the formula revision to be successful and long-lasting. Formulas should incorporate mission oriented metrics for various institution types, such as graduate degrees for universities and student success in remedial education for two-year institutions.

One final consideration that has been widely talked about is an entire overhaul of the system. We are one of the few states which include community colleges within the state's higher education structure. One possible solution is to pull the community colleges out of NSHE and then determine the most appropriate way for funding these institutions based on the best practices of other states. We could then develop a funding formula for the institutions left within the system. This approach would be more consistent with what most other states do and alleviate the difficult task of crafting a formula that fairly treats fundamentally different institutional missions.

I appreciate Chairman Horsford inviting me to speak with you today. I want to thank you again for taking the time to create a new formula more consistent with our state's growth and strategic goals. We are not asking for taxes to be raised, we are concerned with ensuring the distribution of existing resources is done in a fair manner that reflects the state and market needs. Once I became aware of the inadequacies and inequities of the current funding formula I was not surprised to see those holding the right end of the stick mobilize to keep the status quo and preserve their unfair windfall. The continual subsidization of inequity must not be laden on the backs of our state's most vulnerable populations. I ask unanimous consent to submit my Official Remarks to the record. I would also like to answer any questions members of this committee may have at this time.