

**MINUTES OF THE
COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION'S
FUNDING FORMULA SUBCOMMITTEE
(Senate Bill 374 of the 2011 Legislative Session)
August 15, 2012**

The Committee to Study the Funding of Higher Education's Funding Formula Subcommittee (Senate Bill 374 of the 2011 Legislative Session) held its third meeting of the 2011-12 Interim on August 15, 2012, in room 4412, Grant Sawyer State Office Building, Las Vegas, Nevada. The meeting was videoconferenced to room 2135, Legislative Building, 401 South Carson Street, Carson City, Nevada; room 123, High Tech Center, Great Basin College, 1500 College Parkway, Elko, Nevada; and room 308, Virgil R. Getto Hall, Western Nevada College, 160 Campus Way, Fallon, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Senator Steven Horsford, Chairman
Hugh Anderson
Michael Gordon
Kevin Page

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Assemblywoman Debbie Smith
Heidi Gansert

COMMITTEE MEMBERS PRESENT IN ELKO:

None

COMMITTEE MEMBERS PRESENT IN FALLON:

None

COMMITTEE MEMBERS ABSENT:

None

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
Brian Burke, Senior Program Analyst, Fiscal Analysis Division
Patti Sullivan, Committee Secretary, Fiscal Analysis Division

EXHIBITS:

[Exhibit A](#) – Agenda

[Exhibit B](#) – Committee to Study the Funding of Higher Education’s Funding Formula Work Session Document

[Exhibit C](#) – NSHE August 6, 2012, Responses to the Funding Formula Subcommittee’s July 11, 2012, Meeting Questions

[Exhibit D](#) – National Center for Higher Education Management Systems (NCHEMS) – SCH Weighting Matrix

[Exhibit E](#) – NSHE Discipline Clusters and Weights, and Texas Public General Academic Institution Expenditure Study

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 9:16 a.m. and the secretary called roll. All members were present at the meeting, with attendance in Las Vegas and Carson City.

II. PUBLIC COMMENT.

Dr. Sondra Cosgrove, Professor of History, College of Southern Nevada (CSN) and 26-year resident of Las Vegas, said she had been closely following the Committee and Subcommittee meetings, and wished to thank the legislators and staff for their service over the past ten months.

Dr. Cosgrove said she was encouraged by the funding model being considered by the Subcommittee, and was more than willing to be held accountable for her role in student success. She worried, however, that faculty would be held accountable for things over which they had no control. She said student success was not limited to what happened in the classroom. There were many administrative decisions that impacted teaching in higher education.

Dr. Cosgrove noted that the CSN Policy and Procedures webpage (<http://www.csn.edu/administration>) included an extensive faculty evaluation policy, containing the contractual obligations upon which faculty are evaluated every year. She noted that the webpage did not include the evaluation policies for administrators.

Dr. Cosgrove said she hoped that as the process of performance funding and accountability moved forward, the Subcommittee would ensure that all NSHE employees are held accountable by the same measure.

Robert O’Toole, Accounting Instructor, CSN, thanked the Subcommittee for the work it has done to develop a funding formula that is fair, equitable and transparent to all of the institutions that comprise the NSHE. He thanked the Subcommittee for the opportunity to provide comments, particularly comments from the faculty of NSHE institutions. Mr. O’Toole urged the Subcommittee to adopt the two basic components of the base

formula and the performance pool. He said implementing the base formula portion of the model, which would consider course completions, would provide a concrete measurement of an institution's output. In addition, he thought it was fair to fund the smaller community colleges with the resources needed to achieve their mission, and to fund the universities for dedicated research facilities.

Mr. O'Toole noted that the base formula proposal recommended the retention of student tuition and fees at the institution in which the student is enrolled. He said because the student chose to attend a certain institution, the money should remain at the institution of their choice rather than being spread across the system. By implementing the second part of the NSHE funding model – the performance pool – each institution would be rewarded for the achievement of its goals. Mr. O'Toole said he understood that the implementation of the new funding model could not be accomplished immediately, and added that an implementation period of two biennia would be reasonable. He thanked the Subcommittee for providing him the opportunity to comment on his support of the proposed NSHE funding model.

Phil Satre provided the following comments via e-mail:

For the last ten years, my wife Jennifer and I have been involved as volunteers and supporters of the Nevada System of Higher Education, the University of Nevada, Reno, and the University of Nevada, Las Vegas. We believe Nevada's colleges and universities are critical to the future of our state's economy and the quality of our educational, cultural, and social experiences as citizens of the state.

We both would like to ask you to approve the new funding formula supported by the Nevada System of Higher Education. The System officers and campus presidents have diligently worked to ensure the proposed formula meets the needs of Nevada's higher education system and the more than 100,000 students it serves every year — while at the same time maintaining fairness and equity among the educational institutions. We also view the proposed formula as more "results oriented" because it is designed to fund student success, not the number of students enrolled. In that respect, we believe it is more of a "business model" that the public will understand and appreciate: equitable, simple, transparent and performance-based.

Chancellor Klaich's proposed funding formula is critical to making our system of higher education stronger, healthier and more stable. It will lead to better educational opportunities for our citizenry — and ultimately a better educated workforce supporting a stronger economy. Your approval of the new NSHE funding formula will be an important step to returning economic health and stability to our future.

III. DISCUSSION ON PROPOSED RECOMMENDATIONS TO THE COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION REGARDING A FUNDING FORMULA FOR THE NEVADA SYSTEM OF HIGHER EDUCATION.

Chairman Horsford said the Committee to Study the Funding of Higher Education's Funding Formula Work Session Document ([Exhibit B](#)) was distributed to the Committee and the public. He noted all of the meeting material was also available on the Nevada Legislature's website. He said the work session document outlined ten issues for consideration by the Subcommittee. In addition, there was another issue for the Subcommittee's consideration related to tuition. Chairman Horsford emphasized that the Subcommittee members were welcome to recommend options not included in the work session document. He said the Subcommittee's recommendations and SRI's recommendations would be provided for consideration by the full Committee.

Chairman Horsford made it clear that, although the Committee has used the framework of the NSHE proposal in its discussions, it would not necessarily be the outcome; rather, the Committee and the consultant would determine the outcome.

Alex Haartz, Program Analyst, Fiscal Analysis Division, noted the issue of student derived revenues was not included in the work session document. He said one aspect of S.B. 374 required the larger Committee to look at student registration fees, non-resident tuition, and miscellaneous student fees, which are included in the state supported operating budgets for the seven teaching institutions. He noted that SRI provided the Committee with extensive information on other states' treatment of the budgeting of those revenues, and how those funds impacted the appropriation of general fund monies in those states.

Mr. Haartz said, in Nevada, by budget policy — not by formula, the dollars that the institutions generate and expend on their campuses are counted prior to the allocation of General Fund appropriations. The Subcommittee will make recommendations as to the following budget policies: 1) whether student derived revenues should be used as an offset to State General Fund appropriations; and, 2) whether those revenues and the corresponding expenditures should be reflected in the state supported operating budgets for purposes of transparency, even though they would not impact the amount of General Fund appropriations.

Mr. Haartz added that a revenue line that is not student revenue specific, but is investment income specific, has historically been budgeted in the state supported operating budget, and is also treated as an offset to General Funds.

MR. PAGE MOVED TO RECOMMEND THAT THE STUDENT DERIVED REVENUES GENERATED BY THE INSTITUTIONS SUCH AS REGISTRATION FEES, NON-RESIDENT TUITION, AND MISCELLANEOUS STUDENT FEES, WOULD REMAIN AT THE INSTITUTION, AND NOT SERVE AS THE FIRST DOLLARS COUNTED AGAINST STATE SUPPORT. THE MOTION WAS SECONDED BY MR. GORDON.

Mrs. Gansert asked if this policy would provide NSHE autonomy in expending tuition and fee revenue. Mr. Haartz said that was the interpretation inasmuch as that currently NSHE had full authority as to how those revenues were expended in that the revenues were not mapped to any type of expenditures.

Dr. Roland Stephen, Senior Economist, Center for Science, Technology and Economic Development, SRI International, said it was generally the practice in other states that campuses retained their own tuition, and although there were mechanisms for transparency, the state budget process did not take notice of those revenues when generating the state support for higher education.

THE MOTION WAS APPROVED UNANIMOUSLY.

Mr. Haartz said that the second issue was whether a portion of student derived revenues would continue to be reflected both as revenue and expenditure in the state supported operating budget, which is the current practice.

Mr. Anderson asked if it would be more transparent to add the revenues to the general budgeting of the state, as compared to keeping it segregated.

Mr. Haartz explained that, based upon the constitutional authorities, the Legislature has the authority to review the budgets that contain General Fund appropriations, but does not review self supported budgets, which are reviewed and approved by the Board of Regents. That budget information is available publicly, either through the institutions or through the Chancellor's Office.

Mr. Haartz explained that the funds budgeted through the state operating budgets are reviewed and discussed during the legislative process. If the revenues are not in the state supported operating budget, they are reviewed once. If the revenues are in the state supported operating budget they are reviewed twice, and included in the Governor's recommended budget. For purposes of transparency, by adding the Legislative review, the information would receive greater public scrutiny compared to being reviewed only by the Board of Regents.

Chairman Horsford added that before 2009, information on the NSHE's non-General Fund revenue sources was not available to the public, or to the Legislature. He felt that information about all of the revenue NSHE generated should be available. This recommendation would carry that practice forward. While the Legislature and the Governor would not use those student derived revenues as an offset, they would know where the revenues were generated.

Dr. Stephen responded to a question from the Subcommittee by saying although he would not go so far as to use the phrase, "best practice," the practice in other states seemed to be that fees, tuition, and other sources of student derived revenues were retained by the campuses. He said different mechanisms for transparency were used in other states. For example, the fees and revenues may be placed in an account with the State Treasurer, and then drawn on, which would not necessarily require a legislative action.

MR. PAGE MOVED TO RECOMMEND THAT THE CURRENT PRACTICE IN WHICH A PORTION OF STUDENT DERIVED REVENUES WOULD BE REFLECTED AS REVENUE AND EXPENDITURE IN THE STATE SUPPORTED OPERATING BUDGET. THE MOTION WAS SECONDED BY MR. ANDERSON.

Mrs. Gansert said it was important to have transparency, and for the funding information to be available in one place. She asked if the investment interest should be included in the motion.

Mr. Haartz said historically, investment income was reflected in the state supported operating budgets. The amount was not large, but it was treated the same as student derived revenues.

Chairman Horsford asked Mr. Page and Mr. Anderson if they agreed that interest revenue should be part of the motion and they concurred.

Mr. Anderson expressed concern that if an institution was very successful in collecting student derived fees, there would be a return to the former practice of using those fees to offset General Fund support.

THE MOTION CARRIED UNANIMOUSLY.

1. Primary Formula Driver: Resident Student Credit Hours (Enrolled vs. Completed vs. Successfully Completed)

Mr. Haartz said the first item on the work session document (Page 1, [Exhibit B](#)) was a core issue in terms of what serves as the primary driver of funding. In Nevada, the existing, suspended funding formula used enrollments, best described as, “student credit hours to be attempted.” He said the formula was based upon student full-time equivalent (SFTE). He said SRI provided information on the methodology used by various states as to what was being counted, for example, enrollments, credit hours attempted or credit hours completed. He said the Chancellor’s Office proposed counting credit hours that were “successfully completed.”

Mr. Haartz said 31 states use a funding formula and the vast majority of those states utilize student enrollments or credit hours attempted as the main driver of the funding formula. Two states currently utilize credit hours completed and two other states utilize the concept of successfully completed credit hours in which success was considered to be a letter grade of D- or above.

Mr. Haartz said the Subcommittee has heard extensive testimony on the two different types of F grades: One type of F grade is awarded as a result of a student’s non-attendance and non-effort. Within NSHE the letter grade designated as “FN” has been the grade institutions are encouraged to give for non-attendance. The other type of F grade is given when the student has attended the course, completed the work, attempted to pass the class, and perhaps sought extra help, but has still failed the course.

Mr. Haartz said at its July 11, 2012, meeting the Subcommittee requested that NSHE provide information as to the completed credit hours associated with the two F grade types. He noted that the issue was presented as Question 4 on page 7 of the NSHE August 6, 2012, Responses to the Funding Formula Subcommittee's July 11, 2012, Meeting Questions ([Exhibit C](#)), and in the work session document (page 2, [Exhibit B](#)). He said all of the institutions reported the "date of last attendance" of the course for all students, except for UNR, which only captured the date of last attendance for the students who were receiving financial student aid.

Mr. Haartz noted that the Subcommittee requested a scenario in which the F grades for non-attendance were removed, and the F grades for students who made an effort were included, so the institutions would get credit for the work. He said the scenario presented as Appendix E (page 18, [Exhibit C](#)) illustrated that the slightly different practice used by UNR had the potential to skew the distribution of dollars.

Chairman Horsford noted that UNR did not have comparable data. He asked why that data was not available.

Chancellor Klaich explained that the policy adopted by the Board of Regents with respect to issuing failing grades for nonattendance was permissive rather than mandatory, because failing grades were not a factor in the methodology used to complete prior budgets. He understood that at its meeting on July 11, 2013, the Subcommittee discussed excluding F grades for non-attendance, which was consistent with the policy of the Veteran's Administration. If that was the case, Chancellor Klaich said that should be applied prospectively, and that the Board of Regents would be recommended to adopt a mandatory policy that would allow the data to be consistent throughout the system.

Chairman Horsford suggested one option would be to develop criteria to demonstrate that the institutions made an effort to serve the students who did not complete the course, but did attend. If so, the institution would be reimbursed.

Chancellor Klaich said he has confirmed with his IT staff that the current program would provide for that information to be collected system-wide.

Chairman Horsford noted that six of the seven teaching institutions followed the Board of Regents' policy.

Chancellor Klaich explained that all of the teaching institutions followed the policy to a certain extent. He said cohorts must be tracked, because the federal government does not provide financial aid for students who do not attend classes. All of the institutions collected that information, but some went further in tracking the information than was required, and some implemented the permissive policy that the Board of Regents had adopted. He said, given the discussion of the Subcommittee at its last meeting, it was clear that the Subcommittee wanted a mandatory policy with common consistent definitions applied throughout the system. He understood that the State of Nevada was no more interested in paying for nonattendance than the federal government.

Mr. Page noted that it would have been easier to collect information for all students, then sort for those students with financial aid. He explained that those students who were not getting financial aid would need to be excluded in order to collect the information. He asked if any rationale was given that six of the institutions collected the info, but one did not.

Crystal Abba, Vice Chancellor for Academic and Student Affairs, NSHE, said that in December 2011 the Board of Regents adopted a permissive policy to allow the institutions to use an "FN" code so the financial aid office could easily identify F grades for nonattendance, which had implications for financial aid and benefits for veterans. That policy was not mandatory, and only one institution -- TMCC -- was currently using the FN code.

Ms. Abba explained that there was a better method to identify the students who received an F grade for nonattendance. According to Title VI federal financial aid standards, a date is selected, and a student must have attended classes up to that point in order to have been there for at least 60 percent of the course. The 60 percent mark is critical for financial aid. If a student does not attend up to the 60 percent mark, under certain circumstances, the student would have to repay the federal financial aid.

Ms. Abba said, because the FN information was not available for everyone, the date of last attendance was utilized instead. With the exception of UNR, all of the institutions track the date of last attendance. She explained that UNR recorded the dates of last attendance for the F grades for student who either completely withdrew, or failed all of the courses, because those are the explicit circumstance under which a student's federal financial aid must be returned to the federal government. In response to a comment from Mr. Page, she said UNR had the capacity to collect this information.

Mr. Anderson recalled that at the July 11, 2012, meeting of the Subcommittee there was discussion about the efforts and intentions of an institution to help a failing student successfully complete a course. He said if that student failed, the institution should be reimbursed for its efforts. He asked if the system allowed for proper documentation. He said it would be easy to identify the students that attended up to the 60 percent mark. However, he did not know how to assure that each institution was going through the process to remediate a failing student, so that the work effort would be legitimately compensated, even if the outcome was failure.

Ms. Abba said the federal government wanted the same thing, but it was not possible to measure the effort of every student. That is why the federal government used the 60 percent attendance mark and NSHE believed that was a reasonable substitution.

Chairman Horsford did not agree that the federal government standard should be the state's standard in this case, because the state's goals for the system must be higher. He would like to see another measurement of the effort of the institution to meet a student's needs.

Mrs. Gansert said it seemed that the federal standard would be a good measure to use. Regarding the question as to the effort made by the institution to assist a failing student, she noted that in the performance pool there was heavy emphasis on graduation rates. She thought that would create an incentive for the institutions to make sure a student completes the courses and graduates.

Chairman Horsford disagreed. He said the performance pool was intended to act as an incentive to the institutions to achieve above and beyond what was expected every day. He believed that the system should be funded for serving students unless the institution's effort could be documented. If the institution does not help the students to complete classes, they are not going to achieve the goal of graduation. He described this as a "front end" approach, rather than a "back end" approach.

Mrs. Gansert asked the Chairman if he had a proposal as to how to measure those efforts, or whether that decision would be left to the Board of Regents.

Chairman Horsford said if the Subcommittee recommended option E, he would ask NSHE, the Board of Regents and SRI to develop recommendations for the full Committee to consider at its meeting on August 29, 2013.

Mr. Haartz said the Subcommittee had various options in determining a primary driver for a funding formula, including:

- a. Resident credit hours to be attempted (enrollments) and has historically been done.
- b. Resident completed credit hours, inclusive of all letter grades except "W," which is withdrawn. That is the proposal submitted by NSHE.
- c. Resident completed credit hours with certain letter grades excluded. If the Subcommittee selects this option, the recommendation should specify which letter grade associated credit hours are excluded from the overall count of credit hours at each institution. The Subcommittee may also wish to address whether the exclusions would apply equally at all institutions. He recalled that at the July 22, 2013, meeting several scenarios were presented in which the F grades were not entirely excluded at the community colleges as a possible option.
- d. Resident successfully completed credit hours in which all letter grades other than A through D and X (continuing) are excluded.
- e. Alternately, the Subcommittee may wish to recommend that the NSHE recalculate the count of weighted student credit hours shown in Appendix E (page 18, [Exhibit C](#)) with all F grades excluded, but also recommend the institutions be allowed to apply to be reimbursed for weighted credit hours associated with F grades until such time as uniform grade definition and data collection processes are established across the institutions.

Mr. Haartz added that the Subcommittee could modify any of the options, and create their own recommendation as to the primary driver to recommend as the basis for the funding formula.

Chairman Horsford suggested that the NSHE, through the Board of Regents, develop a clearer, mandatory policy, rather than a permissive policy that can be applied differently by the institutions.

Mr. Anderson said option E (page 3, [Exhibit B](#)) seemed to provide the most flexibility for developing the policy described by Chairman Horsford. He said the students probably had to swipe a card for their food plan, the library and the gym. He suggested that a card swipe could be used to track remedial academic hours after class, or labs and workshops for the students who need the extra effort. That would easily document the effort provided to the students in danger of failing.

Assemblywoman Smith asked NSHE or Fiscal staff to comment on how the reimbursement would be budgeted. In addition, she asked how the model would be implemented in the next budget if the Board of Regents had to develop the criteria.

Chairman Horsford suggested that NSHE bill the state at the end of each semester.

Mr. Haartz said when the money is appropriated by the Legislature, it is divided into one-twelfths. The institutions receive an ongoing monthly draw, rather than a one-time yearly payment.

With regard to Assemblywoman Smith's questions, Mr. Haartz explained the implementation would depend on the length of time necessary for the Board of Regents and NSHE to establish the systems, policies and procedures. A reimbursement mechanism might not be needed if the formula is implemented for FY 2014. If a reimbursement mechanism was created, that would suggest that a certain percentage of funds would be sequestered and not included in the monthly draw. He suggested the amount sequestered could be based upon the dollar amount associated with F grades for FY 2013.

Assemblywoman Smith said withholding an amount based on F grades for the previous year would be difficult to track.

Mrs. Gansert agreed the accounting would be difficult, and did not agree with the reimbursement methodology. She had confidence that the Board of Regents would come up with a policy to avoid a reimbursement situation. She noted that, historically, a certain percentage of students would receive FN grades. She said the one advantage to using the federal formula was that NSHE could compare its results to other institutions across the United States, because the data was standardized. She recommended that NSHE use the "60 percent or more" benchmark used by the federal government.

In response to a question from Chairman Horsford, Mr. Haartz recalled that there were approximately 194,000 weighted student credit hours for F grades projected for academic year 2012, which did not segregate out the various types. Multiplied by \$132.56 per credit hour, that would amount to approximately \$25.72 million.

Chancellor Klaich said NSHE staff estimated that about 66,000 of those weighted student credit hours were F grades for non-attendance. Mr. Haartz said that would represent \$8.75 million.

Chairman Horsford said if there was no consensus on the reimbursement method, he suggested a “claw back.” The Board of Regents would devise a policy for each institution as to what efforts those institutions must make. If an institution fails to do so, and the student does not pass the course, the funds would be returned.

Chancellor Klaich said Chairman Horsford and Mrs. Gansert had a similar idea, and that was why he thought it would be most appropriate to have a prospective application of the policy, which he was confident that the Board of Regents would adopt. If that were the case, based on the historical manner in which the NSHE budget has been presented to the Legislature, the claw back would occur automatically, as NSHE would remove the weighted student credit hours for non-attendance from all funding requests that the Legislature would receive in the future. The adjustment would be in arrears by one year, and there would be no need for a claw back, rather, the payment would not happen.

Chairman Horsford said this would require a mandatory policy and centralize data collection so there would be no question about grade inflation, or whether an institution’s effort was helpful to the student. In addition, NSHE would not bill for these efforts on a going forward basis.

Chancellor Klaich agreed, and added those weighted student credit hours that did not meet the policy the Committee, the Legislature and the Governor agree upon would not be included in the NSHE budget request.

Mr. Page agreed to that approach, as long as the data was in a central location and there was easy access to the information. Chancellor Klaich noted the Board of Regents has put into place an integrated system to provide dates of attendance. That information has not been required by the institutions, but it can be required, collected and used to determine the reimbursement for credits. He said it was important that this be applied prospectively; if not, the data would be inaccurate.

Chairman Horsford asked Assemblywoman Smith and Mrs. Gansert for their opinions on that approach.

Mrs. Gansert agreed the tracking should be done prospectively, and there should be transparency about the numbers. She observed that it seemed that NSHE was proposing to bill on a net number, but she thought the FN grades should be tracked separately.

Assemblywoman Smith agreed that the Board of Regents should set a mandatory policy.

Chancellor Klaich clarified that NSHE has the capacity to record data for “earned” F grades versus F grades for nonattendance.

Chairman Horsford said that he would entertain a motion that NSHE, the Board of Regents and SRI International, establish additional criteria beyond the 60 percent measure to be presented to the full Committee at its meeting on August 29, 2012.

Mr. Haartz said the motion should clarify whether the weighted student credit hours would be counted for resident students only, which is the proposal that was put forward by the Chancellor’s Office. The motion should also consider whether all grades are included, with the exception of the W grade for withdrawal. Those grades include U for unsatisfactory, I for incomplete, and AU for auditing.

In response to a question from Chairman Horsford regarding the weighted student credit hours for resident students, Mr. Haartz explained that in the existing formula, the credit hours counted for enrollment included both resident and non-resident students. General Fund dollars were appropriated to support the education of non-resident students, even though the out-of-state students paid tuition to cover the full cost of their education. The Chancellor’s Office has recommended that General Fund appropriations only be approved to cover the credit hours of resident students.

Chairman Horsford noted that some non-resident students received a discount under the Western Undergraduate Exchange (WUE) program. He asked whether those students would be included in the count.

Chancellor Klaich said those students would be excluded from the count. He said that decision was related to the first recommendation that was approved by the Subcommittee to allow campuses to retain fees and tuition. If an institution retains out-of-state tuition, it also has the responsibility to cover the cost of the out-of-state students’ education. If the institution chooses to discount the cost of the tuition, that should not become a burden of the state.

Chairman Horsford noted that the non-resident students received a discount on tuition if they are were eligible for WUE. He said, those students were not paying full tuition, and the remainder was subsidized by the state. Chancellor Klaich agreed that was correct, and said there was a great deal of concern over this issue. The institutions decide whether to discount the out-of-state tuition, and the state pays the balance. That practice was the cause of much consternation within the system. Under the proposal that NSHE put forward, the state would not pay for an out-of-state student’s tuition. If the out-of-state tuition was discounted, the institution must absorb that expense.

Chancellor Klaich noted an institution may still choose to use WUE, and that would be permissible. For example, the institution may decide to grant WUE tuition to out-of-state students with a GPA of 3.5 or greater, majoring in science, technology, engineering, and mathematics (STEM) disciplines to enrich the student body. If the institution makes that decision, it would pay the price, not the state. He agreed that should be clarified that non-resident weighted student credited hours are excluded.

Chairman Horsford wanted it to be on the record that under the current system, there was a subsidy for non-resident student tuition, and the Chancellor's Office proposal would change that. He said that was an inequity issue in the report from SRI. Chancellor Klaich said SRI was correct to point that out, and the Board of Regents understood that practice was creating an inequity. The new method would create a level playing field.

Dr. Stephen added that it is widely accepted that there was value in a diverse student body, including out-of-state students, and students from different parts of the world. Obviously, the State of Nevada does not want to pay for that directly. Further, there can be a risk of crowding out the students who are residents of the state, even if the non-resident students are paying full tuition.

MR. ANDERSON MOVED TO RECOMMEND ITEM D WITH THE INCLUSION OF ALL GRADES, WITH THE UNDERSTANDING THAT RECOMMENDED CRITERIA FOR THE TRACKING OF F GRADES WOULD BE PRESENTED AT THE AUGUST 29, 2012, MEETING OF THE COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION, AND THAT A MANDATORY POLICY WILL BE PROPOSED AND RECOMMENDED TO THE BOARD OF REGENTS ON A GOING FORWARD BASIS, TO APPLY TO RESIDENT STUDENTS ONLY, BASED ON A CENTRALIZED DATA COLLECTION POINT MANAGED BY NSHE. THE MOTION WAS SECONDED BY MR. PAGE.

Mr. Gordon said, as a student, he would like to see more in the criteria than what Mr. Anderson recommended. He noted it would be easy to track attendance for online courses because the students logged in to participate. He wondered how the institutions would go above and beyond the 60 percent measure other than by using card swipe information or a having a pop quiz in week 9.

Chairman Horsford said the federal government standard was a basic requirement. If the basic requirement was that an institution only had to complete 60 percent to get paid, there is no incentive beyond that. He did not want for the criteria to be burdensome or complicated, but it should be in line with the values of serving the students. The institution must be able to demonstrate that they are providing the service by providing data.

Assemblywoman Smith clarified that NSHE was to report to the full Committee at its final meeting with their recommendations. Chairman Horsford suggested that NSHE check with SRI as to whether there are best practices or model language being used in other states. He understood that would still have to be approved by the Board of Regents.

In response to a question from Mr. Page, Dr. Stephen said he would look into the best practices of other states. Dr. Stephen said the State of Nevada would be a leader to the extent that they are requiring more than the federal minimum, and he thought that was worth doing. He was concerned that if the process was too complicated it would create a burden on the faculty from the administrative standpoint.

Mr. Anderson said one of the criteria would be qualitative issues, such as academic, staff hours and availability. He suggested that technology be applied to assure that the student has all the resources. He noted it is not just the instructor's responsibility see that the student successfully completes the course; it is also the student's responsibility. The criteria should show that the student and the academic staff made every effort.

THE MOTION CARRIED UNANIMOUSLY.

2. Credit Hour Projection Approach (Flat vs. Multi-Year, Weighted)

Mr. Haartz asked the Subcommittee members to recall the previous discussion regarding the two basic ways to project student credit hours. The first was a flat approach using a point in time, or fiscal/academic year, and determine that the projections would be based upon actual weighted student credit hours from that particular year. The other approach was to use a form of multi-year average, either weighted or unweighted.

Mr. Haartz said under the existing suspended formula the state has utilized a multi-year weighted approach in which enrollments were projected for the upcoming biennium based upon a three-year weighted average. Over the last two biennia, however, when the formula was suspended, enrollments have been projected based upon a flat approach. For the current biennium, FY 2012 and FY 2013, the legislature projected and funded based upon information for FY 2012. He said the NSHE proposal was based upon the flat approach as well.

Mr. Haartz noted that SRI provided information as to the practice in other states. Some states use a weighted approach. It appears that the majority of states project enrollments based on a point in time. It does not appear that either is necessarily a best practice; each has its advantages. The following recommendations were presented to the Subcommittee:

- a. Adopt Flat to a Base Year. If the Subcommittee chooses this option, the Subcommittee should include in its recommendation the fiscal year that will serve as the base year for projection purposes. Mr. Haartz noted the data that is currently

available from NSHE is for academic year 2012, or fall 2011/spring 2012. When the Legislature is in session, the FY 2013 data will be the most current available. For the last two biennia, the Legislature has utilized the most current data during the budgeting process.

- b. Adopt Multi-Year, Weighted Average. If the Subcommittee chooses this option, the Subcommittee's recommendation should specify the number of years as well as the corresponding weights to be used. He said the suspended formula's approach was three years, and weighted 50 percent, 30 percent, 20 percent, beginning with the most recent year, with the out year being weighted 20 percent. The Subcommittee may also want the Chancellor's Office to provide updated credit hour projections for each of the institutions.

Mr. Haartz confirmed for Chairman Horsford that the NSHE proposal recommended the flat approach.

Chairman Horsford noted that approach has been used by the Legislature as of late, because there was no new funding. He suggested that the Subcommittee be more optimistic and set the base year to 2007.

Mr. Page suggested that the Subcommittee recommend the flat approach. Chairman Horsford asked which fiscal year the growth rate would be based upon.

Mr. Haartz said the rate could be based upon the year for which the most recent data is available, whether actual or projected.

MR. PAGE MOVED TO ADOPT A FLAT TO BASE YEAR APPROACH,
USING FY 2013 AS THE BASE YEAR FOR THE 2013-15 BIENNIUM.
THE MOTION WAS SECONDED BY MR. GORDON.

Dr. Stephen said he did not think there was a big difference in the two options. The only reason to use a weighted average was when a great deal of volatility in enrollments was expected in the years ahead. He noted Nevada State College was hurt because of volatility of enrollment and the subsequent impact on its budget. A weighted average would have the effect of smoothing that to a degree. On the other hand, the flat approach based on one year was simpler, and easier to explain.

Chairman Horsford said the decision to base funding on completions rather than enrollment was also a factor. The institutions would not be able to draw down the funding if the students were not completing.

THE MOTION CARRIED UNANIMOUSLY.

3. Weighting of Student Credit Hours

Mr. Haartz said the proposal put forward by the NSHE, which the Subcommittee has reviewed and discussed extensively, is centered on a matrix of discipline clusters and corresponding weights that are based on costs inasmuch as that they have been “cost-informed.” The weights are based upon cost studies performed by the states of Florida, Illinois, Ohio and Texas. All four states utilize cost-based weighting systems. The proposed cluster of disciplines and associated weightings are informed by the relationship of the disciplines found in the cost studies by those other states.

Mr. Haartz noted that under the NSHE proposal the undergraduate credit hours have neither been weighted to account for cost differences between the three institutional tiers (university, state college, community college) nor for policy reasons, such as incentivizing the completion of science, technology, engineering and mathematics (STEM) or allied health credit hours.

Mr. Haartz said the following options are presented to the Subcommittee:

- a. Adopt the weighting of student credit hours for cost as recommended by the NSHE, which are based upon the cost-influenced/cost-informed approach prepared by the National Center for Higher Education Management Systems (NCHEMS).
- b. Adopt a different weighting approach, such as another state’s cost approach. For example, the Subcommittee may wish to adopt the discipline clusters and weights for each instructional tier utilized by the State of Texas. The State of Texas performs an annual cost study based upon the average costs over the prior three years. Each year there is a new weighting for their discipline clusters.

If the Subcommittee chooses this option, the Subcommittee may wish to consider whether the linkage to another state is to be time limited, until such time as a cost study is conducted by the Board of Regents or other entity in the state to determine what the actual costs are for Nevada.

- c. Recommend that student credit hours be weighted differentially across institutional tiers and/or by type of course, such as remedial versus courses for college credit, or courses that count toward a college degree. Weighting courses differentially by institution and/or for type allows the Subcommittee to recognize differences in costs across the institutions for lower division core and non-core courses. Under this recommendation, the Subcommittee could recommend higher weights for remedial instruction courses (at the community colleges and Nevada State College) as well as higher weights for non-core, lower division courses at NSC and the universities.

Chairman Horsford said the Chancellor’s Office proposal on weighting was based on information from NCHEMS. The weights have been independently evaluated by SRI, but there was no detailed information as to how those weights were created. Rather, it is viewed as an observed relationship among the four states that did the weighting. SRI

identified the Texas model as a model that may be appropriate based on the charge of the Committee. Chairman Horsford said this was just a starting point. Whatever was adopted, the state would need to perform its own study and determine for ourselves what the weights need to be going forward.

Chairman Horsford asked Chancellor Klaich to explain why NCHEMS cannot provide detailed information as to how the weights were created. He also asked Dr. Stephen to describe the strengths and weaknesses of the Texas model.

Chancellor Klaich said he did not think it would be productive for the state to perform its own cost study. He explained that information would comprise a historical record of past decisions, whether good, bad, efficient or inefficient. He said NCHEMS had a long history with longitudinal data of cost studies that showed relativity. Chancellor Klaich believed that the NCHEMS information was based on hard data trends in those four states, which have shown similar relevancies that imply similar weightings.

Chairman Horsford said neither SRI nor Fiscal staff were able to determine how NCHEMS arrived at the weights.

Chancellor Klaich said NCHEMS tried to answer that question twice. They looked at four states, developed discipline clusters utilized in those four states, observed the weightings that those four states provided, then assigned discipline cluster weights for Nevada, based on averages or rounding of those four states. He agreed that the spreadsheet and arithmetic was not provided, but he argued that the weighting was based on a comparison of those states, which all showed a relativity of costs. He said costs would vary from state to state, which made the individual state cost data irrelevant in itself. From the relatively of the longitudinal data over time, it is clear that the social science discipline was the lowest cost for all the institutions. The hard sciences and allied health sciences tended to cost more.

Chairman Horsford asked Chancellor Klaich for an explanation of the philosophical basis to the NCHEMS weights. Chancellor Klaich said the philosophical basis of the NCHEMS model and the discipline clusters provided, was an attempt to expand the matrix of offerings within the system that reflected the relative cost of teaching those courses, with respect to each other, regardless of the institution in which the courses are taught. NCHEMS prepared a general matrix based only upon observations from other states, provided it to NSHE, and NSHE then provided its course information to them. At that point, NCHEMS noted some things were forgotten, and some things were included that should not have been, and made some minor changes.

Chancellor Klaich said the philosophical basis that NCHEMS provided was that some courses are more expensive than others. For example, upper division course are more expensive than lower division, and graduate courses are more expensive than undergraduate courses. The weights reflected a relativity that were rounded to whole digits.

Chairman Horsford said the Subcommittee would return to the discussion after the National Center for Higher Education Management Systems (NCHEMS) – SCH Weighting Matrix ([Exhibit D](#)) was distributed to the members.

Chairman Horsford asked Dr. Stephen to comment on other states' practice of discipline clustering and weighted approach.

Dr. Stephen said many states use formulas based on cost informed set of numbers, including the cost of delivering classes and faculty salaries, combined with an estimate of the number of classes delivered. He said SRI was not a fan of this long-established model of funding higher education in the United States. There was an idea that more and more access and funding to cover the costs would provide the desired results. He said, in a way, the turn toward performance funding was a recognition by many states that a cost-based approach to funding higher education was no longer enough.

Dr. Stephen said it was expensive and complicated to perform an authentic cost-based analysis. He said the State of Texas had the resources for the higher education system beyond what was provided by its legislature. He said the Texas higher education system performed a tremendous amount of fine-grained work in collecting data on each individual institution. He said the State of Tennessee also had institution-level differentiation in its data, which was used to set the student credit hour price, which is then funded by the legislature. The alternative proposed NSHE formula is based upon one set of weights. He explained that some NSHE institutions did not teach any upper division or graduate classes, and some institutions taught many of those courses. Those classes are given different weights, which has the net effect of differentiating the impact of the formula by institution.

Chairman Horsford noted that some of the higher end programs were given a lower weight, and other areas were weighted higher, for example, allied health. He noted the State of Nevada recently adopted a new economic development plan based on seven industry clusters aligned to higher education. He said nothing in the NCHEMS model provided for that. He said in some ways it undermined the state's economic development efforts in certain sectors. In addition, although NCHEMS described the funding as "cost based," they have not provided that information.

Chancellor Klaich said it was important to understand that the formula proposal was two tiered. He agreed with Dr. Stephen that performance funding was a key element of the NSHE proposal. He noted there was the base formula, and there was the performance pool. The performance pool portion of the funding was geared to reflect the state's goals and priorities as accomplished by the institutions. He said the proposal has attempted to align specifically with the economic development plan and the goals of the Committee in that portion of the formula.

Chairman Horsford said the performance pool made up only a small fraction of the state funding for higher education. Most of the funding went into the base formula. He said the weights did not reflect the goals the state has already adopted.

Chancellor Klaich said the base portion of the formula was essentially the price that the State of Nevada was willing to pay for these particular elements of higher education. It was not intended to mean that the institution would produce STEM graduates, philosophy graduates, doctors, nurses or architects. He said that was addressed in another aspect of the formula.

Chairman Horsford said he did not believe this was fundamental reform, rather, it was tinkering. Chancellor Klaich disagreed, stating that the NSHE intended to develop a simple, clear, transparent, and equitable model, and he felt that was done. He said the recommendations of the Subcommittee thus far were reflective of the fact that the NSHE has moved away from using enrollment as a measurement. Rather, the NSHE was emphasizing the work done to get students to graduation. He said the NSHE was providing a band of equity across the system that rewards institutions for work completed on an equal basis. He said the proposed formula made it easy to explain to our constituents how higher education is funded in Nevada. In addition, there are very specific reporting metrics to show constituents how the institutions are performing. Chancellor Klaich said the proposal was for fundamental reform that is consistent with best practices of higher education finance in the country.

Chairman Horsford did not dispute that part. He questioned the weights that determine how the funds are allocated to the institutions. He said the reform must be carried out to the end of the process. He said if the state were to move to a 100 percent performance based model, such as the model that was used by the State of Tennessee, he might be more comfortable with the weights. He said the performance incentive must make up a big part of the funding in order for it to be effective. Chairman Horsford said the NCHEMS weights were not cost informed, and he described the Texas weights as being data driven. He said NCHEMS overvalued certain programs and undervalued others. The weights were based on what worked in those four states, but he did not think the weights worked for Nevada.

Reading from the NCHEMS website, Mrs. Gansert said "NCHEMS is a 501©3 entity whose mission is to improve strategic decision making for higher education for states and institutions in the United States and abroad." Mrs. Gansert said she considered the NCHEMS information to be from an objective third party rather than from someone trying to tweak a system internally. She explained that the weights were based on the other states' experiences and the costs of different kinds of classes. She thought that kind of objectivity was a good foundation for the base funding. She did know much about the Texas model, because it was not discussed in the Subcommittee.

Mrs. Gansert did not think that the Texas model could simply be overlaid and applied to Nevada, because Texas' institutions were probably not similar to those in Nevada. There may be some categories that are somewhat similar, but not alike as far as personnel and students. Mrs. Gansert preferred the NCHEMS information because it was objective. There was no reason for NCHEMS to provide information that was not cost informed.

Mrs. Gansert said there have been numerous discussions about the types of classes that should be weighted to align with the state's economic development goals. She said the base funding was related to cost, and the performance funding was an incentive. She said, to really incentivize more courses around the objectives of the state's economic development plan, the amount of the performance pool must be increased. If the goal was to place more emphasis on STEM courses, that could be done by increasing the percentage for that piece in the performance funding model. Mrs. Gansert asked Chancellor Klaich to describe the NCHEMS organization.

Chairman Horsford said he was not implying that NCHEMS was not credible. He was saying that the NCHEMS weights were applied to the NSHE proposal without adjusting the cost for certain courses.

Chairman Horsford noted that page 2 of the National Center for Higher Education Management Systems (NCHEMS) – SCH Weighting Matrix ([Exhibit D](#)) stated, "It is reasonable to view these weights as policy variables rather than cost factors." He did not believe that every one of the weights was based on costs, rather certain policy decisions were made by the four states, and that was part of the new weighted formula.

Chancellor Klaich said the Texas model included certain very highly specialized courses with weighting multipliers in the 20:1 and 30:1 range. He noted that NCHEMS indicated those did not pass the "smell test." Chancellor Klaich said we would not ask the taxpayers of the State of Nevada to bear that pricing model. Chancellor Klaich said he did not want to second guess NCHEMS, which has consulted with every state and higher education system in the country, and was more knowledgeable about higher education finances than any outfit in the country.

Chairman Horsford said the NSHE did not question the weights provided by NCHEMS, and was not able to answer questions about how the weights were developed. He said that did not meet his standard for transparency. He wanted a formula that did not weigh certain things more than others without reason.

In response to a question from Mr. Page, Chancellor Klaich said the NCHEMS weights were based on data from Ohio, Illinois, Florida and Texas.

Chairman Horsford noted that the Subcommittee was also provided with the NSHE Discipline Clusters and Weights, and Texas Public General Academic Institution Expenditure Study ([Exhibit E](#)).

Mr. Haartz said the Subcommittee was familiar with the NSHE discipline clusters and weights (page 1, [Exhibit E](#)), on which the Chancellor's Office formula proposal was based. He said page 2 showed the proposed weighting for the discipline clusters by academic level that was used by the State of Texas for the Texas Public University System, based upon data for the year ended August 31, 2011. He said the State of Texas organized its disciplines differently than what was proposed by the NSHE. In addition, the State of Texas used slightly different tiers.

Mr. Haartz said the second table on page 2 ([Exhibit E](#)) showed cost information on the credit hour reimbursement rate for the State of Texas. Page 4 through 8 showed the Texas Public General Academic Institution Expenditure Study Overview, which is a brief synopsis of the underpinning of the State of Texas approach. He said that information was provided so that Subcommittee members could compare discipline clusters and the weights. The caveat was that the State of Texas obviously used different discipline clusters, not only by title, but also potentially by the Capital Improvement Program (CIP) code. More work would be needed if the Subcommittee was interested in comparing another states, such as Texas, to make sure there is compatibility in how the discipline clusters are structured.

Chairman Horsford asked the Subcommittee to return briefly to the NCHEMS discussion. He said an example of a potential inequity was that under the NCHEMS proposal, STEM and allied health had higher weights. In addition, under the performance pool proposal, STEM and allied health would receive extra funding. He did not think that was equitable.

Chancellor Klaich noted that the base formula was developed using the cost of the courses in the discipline cluster, and STEM and allied health courses cost more to deliver. Under the performance pool proposal, STEM and allied health were weighted in line with the economic development goals of the state. He said that was consistent with the directives of the Committee.

Chairman Horsford said nothing in the NCHEMS document indicated that cost was used to develop the weighting for the discipline clusters, particularly for STEM. He understood that the Committee wanted to provide an incentive for STEM in the performance pool, but there is now a double benefit for some programs, and an undervaluing of other programs.

Chancellor Klaich said that was clearly correct. Under the performance pool, the state may not value a certain degree or discipline as consistent with the goals of the state. He was not able to address whether NCHEMS weighting was cost informed because he was not able to review the information before the meeting. He noted there was some difference in discipline names, but the weights for liberal arts, engineering and nursing were remarkably similar when comparing the State of Texas and NCHEMS conclusions. He said the NCHEMS weighting was cost-informed based on the cost data that was provided by the four states.

Chairman Horsford noted that page 1, item C, of the SCH Weighting Matrix ([Exhibit D](#)), states:

In reality, historical costs reflect the accumulation of institutional decisions based on internal preferences and choices. For example, cost studies invariably yield the result that upper division courses cost more (often much more) than lower division courses. This is a result of course proliferation (and therefore smaller classes) and assignment of high cost faculty to these smaller classes rather than any inherent pedagogical necessity. The point is that history is not an infallible guide to the future.

Chancellor Klaich agreed, and reiterated that a snapshot cost study of higher education in Nevada would not be particularly helpful. He said the NCHEMS data was borrowed from four states that have used this funding method for decades. He said the longitudinal data, over time, yields more than simply a snapshot in time.

Chairman Horsford said that the proposal had been described to the Subcommittee as “cost based.” Chancellor Klaich said he had intended to use the term “cost informed,” and if he did use the term “cost based,” it was accidental. He clarified that there is no cost data for Nevada on which to base a funding proposal.

Chancellor Klaich said that the information from NCHEMS was also cost informed, because outliers were removed, and there was rounding. He noted that immediate comparisons could be made by using the Texas data, which showed remarkable similarity.

Chairman Horsford noted that Texas data was included in both proposals. He did not know if the addition of the Texas information, which was data driven, radically changed the NCHEMS weights. Chancellor Klaich agreed that the Texas weights were data driven, and very state-specific based on the institutions within its system of higher education.

Chairman Horsford said the Committee’s goal should be to arrive at a formula that works for Nevada, not to rubber stamp four other states’ data. Chairman Horsford said the old formula had very little transparency and there was no justification as to how it worked, which resulted in the current situation.

Chancellor Klaich said that the state does not have the money to perform a cost study for Nevada higher education. He said NSHE avoided “reinventing the wheel” by looking at best practices in other states. He said the NSHE used information from four states that are leaders in this area. He said the NSHE was informed and guided by both the mistakes and the good decisions of the four states. He said the NSHE worked to present a proposal that could be easily explained to the constituents. He said, if the proposal did not make sense, it could be fine-tuned.

Mr. Gordon noted that page 2 of the NSHE Discipline Clusters and Weights and Texas Public General Academic Institution Expenditure Study ([Exhibit E](#)), the “DOC” column, showed the relative weight of the optometry discipline as 51.63, and the undergraduate liberal arts weight as 9.33. He asked if that meant the optometry course was 51 times more expensive than the liberal arts course.

Mr. Haartz said that weight was assigned to calculate the number of credit hours, which would then be used to determine need, which translated to funding, and the distribution of funding.

Chairman Horsford noted that the optometry course was at the doctoral level. Mr. Haartz agreed and added that there was no undergraduate offering for optometry.

Mr. Anderson referred to page 3 ([Exhibit E](#)) to the historical norm of the optometry discipline in the doctoral sector, which had been weighted at 19, but jumped to 51 in 2011.

Dr. Stephen said NCHEMS was an outstanding organization that has served the public good for decades. If NCHEMS claimed that the weights provided were the best synthesis of the four states, that was undoubtedly true.

Regarding the data provided by the State of Texas, Dr. Stephen pointed out that the weights at every level of the engineering discipline rose dramatically over the past four years; although not as dramatically as in the optometry discipline. He noted that the costs underlying the weights were driven by faculty salaries. He explained that if there was a policy decision by the higher education system in Texas to build its STEM capacity, funding for new faculty and new facilities would be allocated to that end. That policy decision would be embodied in the weights assigned to those discipline clusters for 2011. The weights showed a measurement of cost, but that cost also reflected Texas' policy choices, rather than simply the market for engineers. He commented that engineering programs were very expensive.

Dr. Stephen said the NCHEMS provided Nevada with cost-informed weights that embodied both the costs and the policies of the states from which they were derived. He pointed that out to address Chairman Horsford's comment that the policy objectives in the state should be met through the base as well as through the performance pool. Dr. Stephen agreed with Mrs. Gansert's suggestion to increase the size of funding in the performance pool, because that was where the economic development policies resided. He said it must be acknowledged that there is a mix of policy and cost in the base formula.

Chairman Horsford agreed, and noted either approach was better than the current formula. He said, he was not comfortable using the NCHEMS assumptions without more information as to the cost and the policy considerations underlying the weights. He did not agree with applying the weights developed by other states without cost study information that was specific to Nevada. He agreed that the weights for Texas were specific to Texas, but noted the information behind the weights was data driven.

Chairman Horsford said he had asked at a prior meeting for a list of the degree programs within the weighted categories of the NSHE proposal. He noted there were some degree programs in the Texas model, such as teacher education, that were not included in the NSHE proposal. He pointed out that Nevada was ranked at the bottom of the states for K-12 education, there was ongoing talk about the need for qualified teachers and educational leaders, yet there was no extra weight given to that discipline in the NSHE proposal. He said discussion was needed to develop recommendations as to what part of the weights should be policy driven rather than cost informed.

In conclusion, Chairman Horsford said, unless the funding model was to be 100 percent performance pool, the weights underlying the base funding must be justified. He was not comfortable using the recommendations from NCHEMS that were based on other states' policy decisions, because those states were not his constituents. He proposed that SRI and the Chancellor's Office review the weights and identify discipline categories that are not included in NCHEMS information, but are in the information provided by the State of Texas. The Committee would then determine whether the discipline clusters should be included on the matrix of weights. Secondly, if the weights were cost informed, the Committee would want to know the source of the cost information. For example, Texas derived the costs from its historical data.

Dr. Stephen said that policy decisions were also embodied in the costs underlying the Texas higher education weights. He understood that Chairman Horsford aspired to make the weights specific to Nevada's costs and policies, rather than the past policies of other states. He said using the weights developed by other states with good data was a sensible place to start. Secondly, he asked Chairman Horsford if he wanted for SRI and the Chancellor's Office to perform a comparison of discipline clusters in the alternative proposal to those used by Texas and other states.

Chairman Horsford concurred. He asked if all of the discipline clusters were included in the NSHE course taxonomy (page 1, [Exhibit E](#)), and where the Medical School was included.

Chancellor Klaich said every course offered in the system was included in the NSHE matrix. He explained that the matrix provided by NCHEMS was used as a framework for NSHE's taxonomy of courses. He agreed that NCHEMS' weights were applied to those courses. He said he did not want to leave the impression that things have been excluded. He said the Medical School was a line item budget that will be continually scrutinized in the same fashion as the dental school and law school. He noted law classes were included because some of the undergraduate courses lead to other degrees, such as paralegal.

Chairman Horsford noted that the Texas Public University discipline clusters included categories for undergrad, masters, doctoral and special professional (page 2, [Exhibit E](#)). He asked Dr. Stephen to compare the two to find any missing elements, and elements where the weights appear to be widely different.

Mrs. Gansert did not think it was possible to simply overlay the Texas weights onto Nevada's courses. She said we do not know the size of the classes, which professor is teaching them, or whether they are offered online. She liked that NCHEMS included four states in its data, including Texas. She recalled Dr. Stephen mentioning there was a mix of policy and cost in the Texas weights as well. For example, the weight of the engineering discipline cluster was increasing because Texas made a policy decision to put more money into engineering. She said it was important to note that decisions were made that affect the change in costs over time.

In addition, Mrs. Gansert noted that Texas did not use different weights for different types of institutions, for example, community colleges versus universities, or state colleges. Rather, all of the tiers were given the same relative weight.

Mrs. Gansert said, because Texas is a subset of the NCHEMS data, it might be interesting to compare the average weights. This might not be possible due to the limited amount of time available, and the scope of the SRI contract.

Mr. Page noted that the Texas matrix included outliers such as veterinary science, pharmacy and optometry that did not apply, because NSHE had none of those programs.

Dr. Stephen said the work of SRI was at its outer limits in terms of time and resources. He said the actual CIP codes for the four institutions should be mapped.

Chairman Horsford requested that SRI and NSHE identify the CIP codes in the NCHEMS information, determine how the codes differ from the codes used by Texas, and average the two weights.

Mrs. Gansert clarified that she was not suggesting averaging the NCHEMS and Texas weights, rather, she was suggesting averaging the weights used by the State of Texas within the categories.

Dr. Stephen said CIP code information was available for all of the states, because they were required to be reported to the federal government. He understood Mrs. Gansert to say that one state alone was not necessarily a reliable guide, and perhaps averaging across four states would provide better results. He did not know whether there was time to collect and process data for all four states before the meeting of the Committee on August 29, 2012; however, there was time to look at the discipline clusters used by other states, and compare them to the ones in the alternative proposed model.

Chairman Horsford said the weights should be data driven. He had hoped to have information from NCHEMS to explain the data the weights for the programs were based on.

Dr. Stephen said did not know whether that kind of information was available. He said, NCHEMS was the expert on this topic, and he would defer to them.

Chancellor Klaich agreed with Dr. Stephen that NCHEMS was expert resource for information about higher education funding in the United States.

Chairman Horsford said he would not relegate his decision as to how the higher education funding would work in Nevada to NCHEMS. He believed that the alternative proposal did that. He noted that there was no discussion among the Board of Regents as to whether the weights provided by NCHEMS were appropriate to the priorities of NSHE.

Assemblywoman Smith asked for information as to the impacts of the proposed plans to the individual institutions. Chairman Horsford requested SRI to use the calculator that was developed to show the effects of the various scenarios on the institutions. Dr. Stephen said that any weight, for any course, in any discipline cluster, could be entered to show the results to the institutional state support. He understood that the Subcommittee did not want to use the weights provided by the State of Texas, rather they wanted to make the weights in the base formula specific to Nevada, relying initially, as wisdom suggests, on the input from NCHEMS and the Board of Regents.

Assemblywoman Smith asked about the calculator developed by SRI to show the effects of the different scenarios. Chairman Horsford said SRI was charged with developing a standard process to show scenarios for whatever approach is taken. Chairman Horsford said SRI has not yet been directed to provide the scenarios. He wanted consensus on which approach was more likely to be selected before requesting the scenarios. However, that would not be possible, because the data requested from NCHEMS that justified the weights was not provided. He said the Subcommittee and SRI were running out of time, so there would be no comparison of the CIP codes and discipline clusters between the NCHEMS and the State of Texas weights.

Dr. Stephen said SRI would not be able to review the cost studies of the other states, and evaluate the way their weights were informed, because that information was not available.

Mrs. Gansert understood that the only cost data available was for the State of Texas. She noted the CIP codes and discipline clusters could be mapped, but if costs were only available for one state, it might not be valid for Nevada. She noted the NCHEMS data was from four states. She recalled Dr. Stephen saying that data from several states was needed in order come up with a reasonable foundation for costs.

Dr. Stephen said the output of the costed formulas of the four states could be compared to the output of the Texas formula, and the weights NCHEMS has provided.

Mrs. Gansert asked if it was valid to try to do that type of analysis without the raw data behind the weights. She asked if the Subcommittee was skipping ahead and not having the foundation that is truly required to perform a cost study.

Dr. Stephen clarified that there was no cost study for Nevada higher education, nor was there an evaluation of the cost studies of other states. Rather, there would simply be a review of the input used by NCHEMS from the four states to show the degree to which they map to the NSHE's discipline clusters. He said he would be surprised if there was much difference.

Dr. Stephen thought the Chairman might have been expecting a spreadsheet that showed how the weighted average of the four states was used to generate the weights that informed the base formula for Nevada. However, the process was more iterative and qualitatively rich than that. He said there was limited data, which is the source of some concern, but there was a way to proceed.

Mrs. Gansert asked Dr. Stephen if he would verify the validity of the NCHEMS data. Dr. Stephen understood that the Chairman wanted information for the weights and the discipline clusters in the four states that have done cost studies, and a comparison to the alternative proposal to show the differences and similarities.

Chairman Horsford said the Subcommittee was being asked to adopt the average of the weights for the four states' discipline clusters, without knowing the methodology that was used by the states to arrive at those weights. He reiterated that NCHEMS and the NSHE were both asked to provide the methodology. He did not want for SRI to recreate something that should be available by NCHEMS. He asked Dr. Stephen to use the discipline cluster information that was available for the four states and create a spreadsheet of information to assist the Committee in making a recommendation.

Mr. Gordon asked if the other three states performed annual cost studies. In addition, he asked if the data that the Chairman wanted should be based on the most recent year the cost study was done, or an average of three to five years.

Chairman Horsford asked Dr. Stephen to include student credit hour by CIP code, and differentiate the information by tier of institution. Dr. Stephen said the data on student credit hours by CIP code was available to the Subcommittee. The question was how the other states treated the disciplines and the clusters, the weights assigned, and the rationale for those weights.

The Subcommittee recessed at 12:08 p.m. and reconvened at 12:30 p.m.

Mr. Anderson understood that the State of Texas was considered to be one of the most transparent systems of higher education, and their data was very extensive. He thought the next step would be to compare the State of Texas data and the NCHEMS data to identify variances and anomalies.

Dr. Stephen said there was time to compare and contrast the weights of the four states, compare CIP codes and discipline clusters, and the weights assigned to them. He would provide policy-neutral information as to the differences, average and ranges. He noted that the weights would inevitably be influenced by the policies of the other states.

Dr. Stephen said the performance pool was deeply informed by the economic development policy questions. He understood Chairman Horsford to mean that if the performance pool was a small amount, then there was policy inevitably reflected in the base formula. The Committee would need to decide the mix of funding, whether it would be all policy based, or some policy based and some cost based. Then the cost side and the economic development side can be mapped onto the strategy for the State of Nevada.

Chairman Horsford asked Dr. Stephen to provide scenarios to the Committee members at the meeting on August 29, 2013, showing the effect of the funding proposal to each of the institutions. In addition, he asked Dr. Stephen to provide whatever information was available to Mr. Haartz to be forwarded to the Committee members in advance of the meeting.

There was no recommendation from the Subcommittee on this item.

4. Small Institution Funding for Administrative Infrastructure Costs

Mr. Haartz said the issue of small institution funding for administrative infrastructure costs dealt with economies of scale, the weighted student credit hours projected to be generated at a particular institution, and whether revenues would be sufficient to support the administrative infrastructure.

Mr. Haartz said NSHE proposed a maximum of \$1.5 million for each institution, which would decrease based upon an increase in weighted student credit hours. He noted the General Fund appropriation would increase as weighted student credit hours increased, and student derived revenues would increase concurrently. He said the existing, suspended funding formula included factors for GBC and WNC, including a phase out function based upon student FTE. Mr. Haartz pointed out that the funding for the small institutions would be taken from the top, before the base formula centered around credit hours is calculated.

Mr. Haartz presented the following options for the Subcommittee to consider:

- a. Approve the small institution factor for GBC and WNC as proposed by the NSHE.
- b. Recommend that Nevada State College (NSC) receive funding under the Small Institution Factor, based upon the same sliding scale as GBC and WNC. While not rural, from a weighted student hour standpoint, NSC's 91,579 credit hours (before adjustment) more closely approximates the projected number of credit hours of GBC (63,041) and WNC (72,985) than it does TMCC (209,107), CSN (638,374), UNR (659,685) or UNLV (934,511).
- c. Recommend that the Small Institution Factor be utilized for stop-loss purposes during the phase-in period of the new formula and be discontinued after the new formula is implemented.
- d. Approve a "ceiling" amount other than the \$1.5 million proposed by the NSHE and/or a different phase-out rate. If the Subcommittee chooses this option, it will need to recommend a new ceiling amount and phase-out schedule.
- e. Do not approve the Small Institution Factor funding to any institution, but instead recommend that the NSHE System Administration assume financial responsibility for providing some percentage of the fixed administrative expenses at the covered institutions. Moving the costs to System Administration would allow the small institutions to allocate a greater percentage of their formula funding to instructional-related purposes.
- f. Do not approve dedicated General Fund appropriation, allocated first for GBC and/or WNC to support institutional administrative costs. Not approving this formula adjustment would have the effect of increasing the General Fund appropriations available for formula distribution by \$1.92 million to \$3.0 million per year.

MR. PAGE MOVED TO APPROVE THE SMALL INSTITUTION FACTOR FOR GREAT BASIN COLLEGE AND WESTERN NEVADA COLLEGE AS PROPOSED BY THE NEVADA SYSTEM OF HIGHER EDUCATION. THE MOTION WAS SECONDED BY ASSEMBLYWOMAN SMITH.

Chairman Horsford asked if the small institution factor was built into the base funding, rather than being added as stop-loss funding. Mr. Haartz said that was correct: of the total appropriation approved by the Legislature, the small institution factor would be the first dollars funded.

Chairman Horsford was concerned that would create a dynamic within the base formula for two institutions that does not apply across the system. He asked if there was a reason that the formula could not be applied first, then fund the small institution factor. He noted that GBC could grow quickly, and no longer need that adjustment.

Mr. Haartz explained that the small institution factor funding was built into the base for as long as an institution qualified as a small institution. Under NSHE's proposal, the funding was graduated, and when the 100,000 credit hour threshold is reached, it would no longer qualify for the small institution factor funding.

Chairman Horsford asked how the 100,000 credit hour threshold was determined. Mr. Haartz said it was similar to a current formula, which used a 3,000-student FTE metric by which the economies of scale factors built into the existing formula are slated to phase out for GBC and WNC.

Mrs. Gansert said there was a mechanism built in so that the small institution factor funding reduced as the institution grows. She thought it was important to have something for the small institutions, because some of them will experience significant decreases, yet must maintain administration and overhead. The mechanism built in by NSHE makes sense because it decreases as the credits provided increase.

THE MOTION CARRIED UNANIMOUSLY.

5. Funding of Operations and Maintenance Costs

Mr. Haartz said the funding of the institutions' costs for the operations and maintenance (O&M) of their physical plants under the NSHE proposal has been discussed extensively by the full Committee and the Subcommittee. The existing formula had a separate sub-formula that funded the institutions based upon square footage and improved acreage. Under the NSHE proposal, O&M costs are included in the weighted student credit hour funding.

Mr. Haartz explained that funding would be provided to an institution, and the institution's president, with approval by the Board of Regents, would determine how much revenue, including General Fund appropriations, would be used to support operations and maintenance.

Mr. Haartz said the Subcommittee requested that the Chancellor's Office provide several scenarios in which budgeted O&M costs were excluded from the student credit funding, and funded first, similar to the proposed Small Institution Factor. As presented, these scenarios reduced the General Fund appropriations available for distribution among the institutions through the formula by \$92 million.

Mr. Haartz said at its July 11, 2012, meeting, the Subcommittee requested that the Chancellor's Office review the issue of the research O&M adjustment. It was clarified that the Research O&M adjustment was not for the support of operation and maintenance of research space, but rather to fund research personnel and administrative overhead costs at the two research institutions. He noted that would also be discussed briefly under item 6.

In response to a question from Chairman Horsford, Mr. Haartz clarified that the Research O&M adjustment perhaps should not have been classified as O&M. The methodology used by NSHE essentially utilized non-instructional research-dedicated square footage as a proxy to determine this particular cost.

Chancellor Klaich said NSHE has taken the approach that O&M is part of the creation of capacity within the system. He said the buildings create capacity for additional students, which generate weighted student credit hours, the basic cost driver of the base formula. With respect to dedicated research facilities, there are no classes or students, so no weighted student credit hours would be generated. Chancellor Klaich said he left Mr. Haartz with the wrong impression as to which areas the funding could be spent; in fact, the research O&M was specifically to support O&M for those buildings.

Chairman Horsford said every square inch of building space was for instructional purpose based on the mission of NSHE. He did not understand how there was a decision to dedicate space to research, and add an O&M allocation, on top of the O&M allocation that all of the space already received.

Chancellor Klaich said the funding was being "carved out" rather than added. He said no additional money for O&M was being requested. Rather, the funds were for facilities with no classes, such as the earthquake shake table.

In response to a question from Chairman Horsford, Chancellor Klaich explained that Social Work was not included in the research section because there were classes. He said the research section did not include space associated with graduate level teaching, rather, it was for research facilities that are not associated with masters or doctoral level classes.

Chairman Horsford asked why those types of research were given an additional allocation, while research done by the social work students and faculty were not given an additional allocation. Chancellor Klaich said the fundamental premise was that the state has always specifically allocated O&M to buildings. He said, we asked ourselves who that favors, and whether it was a reasonable policy decision. The proposal

recommended that it was not a reasonable policy decision, but rather that O&M funding should be funneled into the overall price that the state was prepared to pay, and that the system would allocate that to the institutions. That is based on the fundamental premise that we are paying for weighted student credit hours. There are certain facilities in the system that do not generate weighted student credit hours.

Chairman Horsford said it should be called “stop-loss” funding, and it should only be available for two years. He asked how it was determined which space is research space and which is classroom space.

Chancellor Klaich explained that NSHE’s two research institutions, UNR and UNLV, were given the criteria of the space used for pure research activities as opposed to teaching activities. Chairman Horsford asked for a copy of that criteria, and asked what would happen if the space was both research and instructional

Mr. Haartz said that the square footage information was available, but the criteria that led to the square footage was not, other than to define the space as not instructional in nature.

In response to a question from Chairman Horsford, Chancellor Klaich said he was not able to explain how space that was both research and instructional would be treated.

Chairman Horsford asked to defer the decision until the Chancellor’s Office could clarify the definition of research space for O&M purposes.

6. Funding of Research-Related Operating Costs

Mr. Haartz explained that there were two methodologies by which research costs at the universities were funded. The first was a 10 percent research adjustment to upper division undergraduate and graduate level credit hours at UNLV and UNR to provide additional General Fund appropriations in support of the faculty and administrative overhead costs of research universities.

Mr. Haartz said that a 10 percent adjustment in weighted student credit hours for UNR and UNLV would amount to approximately \$12.9 million in General Fund monies. The other factor was the O&M research factor.

Mr. Haartz said if the Subcommittee did not want to consider the O&M research factor at this point, the Subcommittee may wish to consider the following options:

- a. Adopt the 10 percent credit hour weighting factor as recommended by the NSHE.
- b. Not adopt the 10 percent credit hour weighting factor as recommended by the NSHE.

- c. Choose a credit hour weighting factor other than the 10 percent proposed by the NSHE. The Subcommittee would need to identify what the weighting would be, how it would be applied, and whether it would be for undergraduate and graduate level courses.

Chairman Horsford agreed with the concept of 10 percent for research, but did not know where it should be allocated.

Dr. Stephen said SRI's views on research differed from those embodied in the current NSHE proposal. He considered it a big improvement over having O&M blended into the weighted student credit hour cost. He said at least two of the NSHE institutions had a research mission. The question was Nevada's interest in the research conducted by those institutions, and how it should be supported. He said the knowledge fund, aligned strictly with the state's economic development strategy, would provide a sensible approach.

Dr. Stephen said research funding was used for high-level instruction of students, particularly at the two research institutions. He suggested that rather than layering on a research weight, the instructional weights should be increased in the relevant disciplines, as suggested in the alternative proposal. He said that would reflect judgment as to where research-informed pedagogy should occur.

As to the research O&M carve out, Dr. Stephen said some research institutions had funded research, and did not use their labs for instructional purposes. Other research institutions draw in graduate students, whose apprenticeship is funded through tuition. The carved out O&M for the two institutions is separate from that, and involves external contracts, either private or federal. He said the Subcommittee must discuss the criteria for pricing the research square footage.

Chairman Horsford said the Subcommittee was discussing the operating costs that are non-O&M. He did not want to act on the O&M research factor. He said Dr. Stephen brought up a valid point that, before the 10 percent for research is decided, the weights should be determined. He did not think that research funding should be exclusive to only those economic development areas.

Chairman Horsford said the primary mission of the NSHE institutions was instruction. He asked why the state should subsidize the entrepreneurial aspect of the universities, which is already funded by the federal government or the private sector. At a minimum, the programs should cover their costs before asking for state funding.

Dr. Stephen said there were a variety of practices among states in this area. There was not a great deal of direct state support for broad-based research. Many institutions built new buildings or serviced bonds for new buildings from retained overhead. He explained that the funding was moved around within an institution from one project to support other projects. He said there was no best practice as to the degree to which the State of Nevada should directly support its research facilities, but he added not many other states had line items for that type of funding.

Dr. Stephen said the research funding should be based on the state's resources and the fundamental underlying mission of the institutions, which is instruction. Private sector grants and foundation grants may carry with them funding for overhead or special provisions to limit overhead. He said there may be logic in "priming the pump" with some baseline carved out research support, but he did not know how that would be done.

Mrs. Gansert said it was important to support the two research institutions. The O&M carve out was for things like the earthquake shake table. She said federal funds or grants were provided to create a program, but there may not be continuing funding. She said the research projects came with many benefits, such as promoting critical thinking, scientific advancement, innovation and entrepreneurialism. She said it was important for the state to support research with O&M dollars.

Chairman Horsford agreed, but did not know how this would be funded, or where the funds would be allocated. He asked Dr. Stephen to be prepared for the August 29, 2012, meeting of the full Committee with information as to the research O&M being built into the weights or the performance pool, or whether funds should be set aside for the knowledge fund. He noted some programs were already receiving funding, and other emerging programs have not been allocated funding. He recalled that UNLV eliminated a high-cost program that was subsequently identified by SRI and the Brookings Institute as an area in which the system should be growing. He said that kind of efficiency was counterproductive to the system's long-term goals.

Dr. Stephen said the big challenge for the state was how to "seed" the new programs, aligned to the state's economic strategy. Having a baseline O&M carve out would not necessary support that, because it supports programs that already exist. He said the performance pool could be a way to create an incentive for new programs.

Mr. Anderson asked for a discussion of the 10 percent funding level and how that was determined. Dr. Stephen said currently 10 percent was to be applied across the board to all upper division, masters and doctoral classes. He said the Committee could decide that some programs should be funded at a higher or lower percentage. Chairman Horsford asked Dr. Stephen to present additional information as to how the 10 percent level was determined at the August 29, 2013, meeting of the full Committee.

Mrs. Gansert commented on the scenario described by Chairman Horsford in which a program was eliminated that was then identified as being important to the state's long-term goals. She said that example illustrated why the institutions themselves must determine their focus. She said it may be tempting to fund new, exciting programs, but our institutions currently have outstanding programs that need support. When those programs are funded, we can then add new programs to support the state's economic development goals.

The Subcommittee did not make a recommendation for this item.

7. Funding of Remedial Instruction

Mr. Haartz said the Subcommittee expressed an interest in whether remedial instruction costs should be included in the funding formula. He said the existing, suspended funding formula did not specifically include or exclude credit hours associated with remedial instruction, and remedial credit hours were funded with General Fund appropriations at the four community colleges, as well as Nevada State College. However, by budget policy, the 2005 Legislature approved the NSHE's plan to make remedial instruction at UNLV and UNR self-funded effective FY 2007. In other words, General Funds do not support remedial education at the two universities.

Mr. Haartz explained that the NSHE's proposal did not provide a funding factor for remedial instruction. Consistent with the aforementioned budget policy, remedial instruction credit hours are only counted at NSC and the community colleges.

Mr. Haartz said, according to SRI International, the states of Alabama, Illinois and North Carolina specifically addressed remedial education in their respective funding formulas. He said remedial education could be considered a critical function if Nevada was to increase its college attainment rate. If so, extra weight be given to both the credit hours associated with remedial classes, as well as hands-on counseling to provide support services for student success.

Mr. Haartz said the Subcommittee may wish to consider the following options:

- a. Adopt the weighting and funding of remedial instruction credit hours as recommended by the NSHE.
- b. Add a credit hour weighting factor applied to remedial instruction at NSC and the community colleges, such as the 10 percent research factor. If the Subcommittee chooses this option, it will need to recommend a weighting factor. The Subcommittee will want the NSHE to calculate the funding changes based upon the Subcommittee's recommended weighting.

Chairman Horsford recalled that the Subcommittee considered the first option at its last meeting, with the addition of performance criteria.

MRS. GANSERT MOVED THAT THE SUBCOMMITTEE RECOMMEND THE OPTION TO ADOPT THE WEIGHTING AND FUNDING OF REMEDIAL INSTRUCTION CREDIT HOURS AS RECOMMENDED BY THE NSHE, WITH THE ADDITION OF A PERFORMANCE CRITERIA. THE MOTION WAS SECONDED BY MR. GORDON.

Mr. Gordon said students that complete remediation should have a guaranteed seat for the following semester, rather than having to sit out another semester. Chairman Horsford said the Subcommittee could make a recommendation that the Board of Regents consider that policy.

THE MOTION CARRIED UNANIMOUSLY.

8. Inclusion/Exclusion of the Medical, Law and Dental Schools in Funding Formula

Mr. Haartz said under the existing formula, the University of Nevada School of Medicine (Medical School), University of Nevada, Las Vegas, School of Law (Law School) and University of Nevada, School of Dental Medicine (Dental School) have been excluded from the funding formula. Rather, they are funded through a traditional line item, referred to as base-maintenance-enhancement (BME). Consistent with the prior formula, the NSHE's funding formula proposal did not include the three professional schools.

Mr. Haartz said the Subcommittee may want to recommend that the Medical School, Law School and Dental School be either included or excluded from the funding formula with annual General Fund appropriations calculated through the BME budget methodology.

MR. PAGE MOVED THAT THE MEDICAL SCHOOL, LAW SCHOOL AND DENTAL SCHOOL BE EXCLUDED FROM THE FUNDING FORMULA.
THE MOTION WAS SECONDED BY MR. ANDERSON

THE MOTION CARRIED UNANIMOUSLY.

9. Inclusion/Exclusion of the Desert Research Institute in Funding Formula

Mr. Haartz said the Desert Research Institute (DRI) has primarily been funded through the base-maintenance-enhancement approach with the exception of O&M costs, which were calculated and funded through the formula. Otherwise, DRI's state supported operating budget was considered non-formula. As originally recommended in the NSHE's proposal, DRI was provisionally excluded from the funding formula, subject to further review.

Mr. Haartz said on August 6, 2012, the Chancellor's Office provided the Fiscal Analysis Division with a revised formula-based proposal for the DRI. It is now proposed that future General Fund appropriations for DRI be calculated by a formula tied to levels of non-General Fund supported research expenditures rather than the base-maintenance-enhancement approach.

Stephen Wells, President, DRI, said that DRI was very appreciative of the collaboration between DRI and the Chancellor's Office to bring to the Subcommittee a proposal that mirrors in many ways the proposal for funding the teaching institutions. He said DRI was different from the other two research institutions in that its primary mission was research. He said the faculty salaries were funded with soft money, rather than state support. In fact, DRI comprised less than 50 FTE, and none of the positions were funded totally by state monies.

Dr. Wells said, as a competitive research institution whose faculty must be productive to succeed, we believe it is very important for DRI to continue to grow and thrive. He said DRI has essentially doubled its research revenues with the increased state support for O&M and other activities.

Dr. Wells said the proposed funding model had two components: 1) the continuation of the current O&M NSHE new space formula that recognizes the need for state investment in research, and the return that the state will receive in economic development; and 2) the institutional and research administration formula, which is a step function calculation that recognizes the need to provide a base level for infrastructure at lower funding levels of grant funded expenditures, yet recognize the economy of scale as sponsored projects grow over time.

Dr. Wells said, on the downside, DRI does assume a risk in recommending a performance based funding component, because the grant market is very competitive. The adoption of the proposed model will put DRI on the same level as its sister institutions, and recognizes, much like the weighted student credit hours, the inflow of research to DRI, and what DRI can then do for the state in both research and economic development.

Chairman Horsford asked Dr. Wells to provide Fiscal staff with the rationale of the funding levels for the record.

MR. PAGE MOVED TO PROVISIONALLY ADOPT THE NEW FORMULA PROPOSED BY THE CHANCELLOR'S OFFICE SUBJECT TO FURTHER CLARIFICATION BEING PROVIDED. THE MOTION WAS SECONDED BY MR. ANDERSON.

THE MOTION CARRIED UNANIMOUSLY.

10. New Formula Implementation (Multi-Year Phase-In vs. Single Year)

Mr. Haartz said the final issue for the Subcommittee is the implementation process and the time period in which a new funding formula is implemented for the NSHE teaching institutions. A multi-year phase-in has been considered by the Subcommittee as an approach to provide the institutions with time to make budget adjustments and work with the faculty and students to plan the implementation process.

Mr. Haartz said the NSHE proposal recommends that "the Committee recommend that the Board of Regents approve, and recommend to the Governor and Legislature, a two-biennia implementation plan whereby the negative impacts on NSHE institutions are mitigated and/or phased in." He noted that the existing funding formula was adopted by the 2001 Legislature with a two-biennia implementation period with provisions for "holding harmless" the institution's funding levels.

Mr. Haartz said the following are options available to the Subcommittee:

- a. Adopt the NSHE's recommendation that the decision on how to implement a new funding formula be made by the 2013 Legislature based upon the input of the Board of Regents and the Office of the Governor during the biennial budget process.

- b. Recommend the implementation of a new funding formula over a multi-year period, such as two biennia. If the Subcommittee adopts this option, the Subcommittee may wish to include details in the recommendation as to the phase-in period, and whether it wishes to include a stop-loss provision, which is not the same as a hold-harmless provision. A stop-loss provision would mitigate in a planned way, the reallocation of dollars between institutions, based upon the funding formula and where the weighted student credit hours were occurring. For example, if a four-year approach were recommended, that would suggest a maximum change limit of 25 percent in the first year and plus (+) 25.0 percent in each succeeding year until 100 percent is reached in the fourth year. An institution could not lose more than 25 percent of its based funding in the first year.

In response to a question from Chairman Horsford, Mr. Haartz explained if the formula suggested that an institution's funding should decrease by \$100, in the first year it would retain \$75 dollars, and \$25 would be reallocated to institutions where the weighted student credit hours had increased. He said reallocation is inherent to the new formula, and the dollars would follow the credit hours. The mechanism used to mitigate the impact of that reallocation is either stop-loss, which is a controlled managed process, or hold-harmless, which allows dollars to be shifted in whole, but then back-filled by new dollars to offset the impact.

Chairman Horsford said using a hold-harmless mechanism would continue the inequity for four additional years. He suggested that stop-loss funding be made available for that purpose for a set period of time of no more than two fiscal years. Mr. Haartz clarified that, in the event that new money was available, hold-harmless would be given for a maximum of two years.

Mrs. Gansert said, given the uncertainty of the outcomes, due to decisions to be made on the weights for courses and research O&M, she suggested that the decision be postponed until the size of the financial impact is known.

Chairman Horsford agreed, and requested that another option for a two-year hold-harmless mechanism be put forward for consideration by the full Committee.

IV. PUBLIC COMMENT.

Patti Sullivan, Committee Secretary, read the following comment from Bob Clifford of Fallon into the record:

Per page 91 of the MGT evaluation of the funding formula the cost weights in the four states vary widely in the different states. The huge variations highlight that things are run differently in different states, and any average of these numbers is essentially meaningless. The NSHE proposed weights carry one decimal place but are basically rounded numbers and therefore are not based exactly on the cost factors, and reflect significant judgment input on the part of NSHE staff. Lastly this whole scheme is supposed to be cost based yet geographical cost factors have been completely ignored, against the objections of at least some of the staff at

NSHE. It is undisputed that it costs more to deliver higher education in rural areas. Regent Knecht has asked NSHE to factor in something rural/distance, which was not mentioned today. Unless we want to drop the objective of providing higher education for all Nevadans, we need a method of funding to deliver a reasonable level of support to rural Nevadans. Note also that distance education helps, but is not a solution for all courses and all students.

David Rhode, Faculty Senate Chair, Desert Research Institute, said the DRI faculty welcomed the concept of the two-component funding model under discussion by the Subcommittee. He said DRI faculty and staff have always worked within a culture of results oriented incentives, and supported the formula of state funding to DRI based on that same tenet. He thanked NSHE for collaborating with DRI to develop the funding proposal, and thanked the Subcommittee for its consideration.

V. ADJOURNMENT.

Chairman Horsford thanked the Subcommittee members, LCB, NSHE and SRI staff for their work.

The meeting was adjourned at 1:49 p.m.

Respectfully submitted,

Becky Lowe, Transcribing Secretary

APPROVED:

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.