

**COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION'S
FUNDING FORMULA SUBCOMMITTEE
(SENATE BILL 374, 2011 LEGISLATURE)**

WORK SESSION

August 15, 2012

As Subcommittee members are aware, each Subcommittee was tasked with reviewing key areas pertaining to the funding of higher education in Nevada and forwarding recommendations for the Committee's consideration at its final meeting on Wednesday, August 29, 2012. At its June 20, 2012, and July 11, 2012, meetings the Funding Formula Subcommittee reviewed and discussed major issues related to the existing funding formula as well as the alternative formula model proposed by the Nevada System of Higher Education (NSHE). The major issues listed and discussed below represent the main policy aspects for which the Subcommittee will want to consider making recommendations. Additionally, when formulating recommendations, members may wish to consider recommendations which are time specific and contain a recommendation that a particular formula aspect be reexamined, and adjusted, as determined appropriate by the Legislature after being implemented over one or several biennia.

Major Funding Formula Issues

1. Primary Formula Driver: Resident Student Credit Hours (Enrolled vs. Completed vs. Successfully Completed)
2. Credit Hour Projection Approach (Flat vs. Multi-Year, Weighted)
3. Weighting of Student Credit Hours
4. Small Institution Funding for Administrative Infrastructure Costs
5. Funding of Operations and Maintenance Costs
6. Funding of Research-Related Operating Costs
7. Funding of Remedial Instruction
8. Inclusion/Exclusion of the Medical, Law and Dental Schools in Funding Formula
9. Inclusion/Exclusion of the Desert Research Institute in Funding Formula
10. New Formula Implementation (Multi-Year Phase-In vs. Single Year)

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

Summary of Issue: As detailed by SRI International, of the 31 states which utilize funding formulas to fund all or part of their system(s) of higher education, the majority (27) utilize a funding formula with student enrollments (SFTE) calculated based upon credit hours to be attempted as the primary driver or determinant of 'need.' In addition to the 27 states, 2 other states (Louisiana, New Mexico) utilize course completions, while another 2 states (Ohio, Tennessee) utilize 'successful' course completions (grades \geq D-). According to SRI International, there does not appear to be a national best practice upon which the Subcommittee can draw. Rather, SRI International suggests the emphasis should be on what action or behavior the Subcommittee wants to incentivize. The existing, but suspended, higher education funding formula is based upon enrollments or credit hours to be attempted.

As proposed by the NSHE, the primary driver of a new funding formula should be resident completed credit hours. Credit hours for non-resident students are excluded.

Information was also provided on how credit hours are treated for purposes of funding by the federal student financial aid system, the U.S. Department of Veterans Affairs and the United States Armed Services. Finally, the Subcommittee heard testimony that when considering a definition of “course completion” the Subcommittee should consider including (in the count of student credit hours) completed credit hours with a letter grade of “F” when associated with students who otherwise attended class, performed the work/assignments, took the exams yet failed the course. As proposed by the NSHE, all letter grades except withdrawals (W) have been included in the definition of a completed credit hour. These include failure (F), incomplete (I), unsatisfactory (U), audit (AU), and continuing (X).

At its July 11, 2012, meeting the Subcommittee reviewed information provided by the Chancellor’s Office that showed the effect of excluding “F” grades from the count of completed credit hours. Additionally, the NSHE provided two scenarios (scenarios G and H) in which “F” grades at the community colleges retained 75.0 percent and 50.0 percent of their credit value, respectively. The Subcommittee requested that a scenario be produced, which excluded the student credit hours associated with “F” grades awarded for non-attendance/non-effort by the student. Updated information and a scenario has been provided under Question #4 on page 7 of the NSHE’s August 6, 2012, response to the Subcommittee’s July 11, 2012, meeting questions. The revised scenario in which an estimate of the credit hours associated with “F” grades for non-attendance have been removed from the count of completed weighted credit hours is included as Appendix E on page 18 of the response. Based upon the provisional data, the primary impact is to remove 66,958 weighted credit hours. While all institutions’ credit hours decrease, excluding UNR for non-comparable data, the largest decreases occur at CSN (32,931), TMCC (15,345) and UNLV (14,495), respectively. According to the Chancellor’s Office only 7.2 percent of UNR’s “F” grades had a date of last attendance noted. At the other institutions, the percentage of “F” grades with dates of last attendance ranged from 85.7 percent (TMCC) to 100 percent (NSC and GBC).

Staff notes for the Subcommittee that in Appendix E, UNR has been treated as if its data and data practices are the same as the other institutions. The count of weighted student credit hours for UNR has been reduced by 704 from 659,685 in the original proposal (Appendix C) to 658,981 in Appendix E. As a result, it is likely that the distribution of funding based upon the exclusion of “FN” grades (“F” grades for non-attendance) reflected in Appendix E would be different if all institutions applied the same data definition and data collection practice with respect to “FN” grades.

The Subcommittee has several options in terms of recommending a primary “driver” for a funding formula, including:

- a. Resident credit hours to be attempted (enrollments).**
- b. Resident completed credit hours, inclusive of all letter grades except “W”.**

- c. Resident completed credit hours with certain letter grades excluded. If the Subcommittee chooses this option, the Subcommittee's recommendation should specify which letter grade-associated credit hours are excluded from the overall count of credit hours. The Subcommittee may also wish to address whether the exclusions apply equally at all institutions.
- 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 with all "F" grades excluded, but also recommend that NSHE institutions can apply, based upon criteria to be established, 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.

What primary "driver" does the Subcommittee wish to recommend as the basis for the funding formula?

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

Summary of Issue: For purposes of determining 'need' and the distribution of appropriated funding, funding formulas require an approach to project the number of student credit hours or student full-time equivalents (SFTE) for a particular budgetary period, such as the upcoming 2013-15 biennium. Credit hours are often converted into SFTEs. According to information presented by SRI International, of the formula states for which specific information was identified, the approaches used by formula states to project credit hours and SFTEs were based on points in time, prior year actuals or multi-year averages, both weighted and unweighted. Based upon the information presented by SRI International, it does not appear that there is a recognized, national best practice.

Flat Approach: The NSHE's alternative funding formula projects student credit hours for FY 2014 and FY 2015 as flat to FY 2012. Staff explained to the Subcommittee that consistent with current practices, if "flat" was the recommended projection approach, the credit hour data would most likely be updated during the 2013 Legislative Session to reflect the most current data then available. The 2009 and 2011 Legislatures utilized the "flat" approach for purposes of projecting 2009-11 and 2011-13 biennium enrollments, respectively.

Multi-Year Weighted Approach: Under the existing, but suspended, funding formula, student credit hours were projected as SFTE enrollments based upon a 3-year weighted average in which the year-over-year actual change in SFTE at an institution (for the three most recent years) is used to derive annual 'growth rates.' Each year's growth rate is then multiplied by a weighting of 50-30-20 percent corresponding to the year's recentness. The weighted growth rates are then added together to generate an annual growth rate that is then projected forward to each fiscal year of the next biennium.

At its July 11, 2012, meeting the Subcommittee compared the two approaches' impact on credit hour projections for the 2013-15 biennium. If a "flat" approach is recommended, credit hours would remain constant, compared to FY 2012 (or FY 2013) at each institution while under the multi-year weighted average approach credit hours were projected to decrease at UNLV, CSN, GBC, TMCC and WNC and increase at UNR and NSC.

As noted, the Subcommittee has discussed the two options in terms of recommending an approach to project student credit hours for a funding formula. These are:

- 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.
- b. Adopt Multi-Year, Weighted Average.** If the Subcommittee chooses this option, the Subcommittee's recommendation should include the number of years as well as the corresponding weights. The Subcommittee may also want the Chancellor's Office to provide updated credit hour projections for each of the institutions.

What recommendation does the Subcommittee wish to make?

3. Weighting of Student Credit Hours

Summary of Issue: As proposed by the NSHE, student credit hours are weighted to account for the difference in the "cost to provide" based upon a standardized taxonomy in which subject matter topics (English Language, Mathematics, Physical Sciences) are organized into discipline clusters and then categorized by lower division, upper division, master's and doctoral-level groupings. While the proposed cost weightings are horizontally and vertically uniform within discipline clusters, the proposed weightings vary across discipline clusters. The NSHE's cost weighting proposal is represented as being "cost-informed," based upon the National Center for Higher Education Management Systems' (NCHEMS) analysis of cost studies performed by the states of Florida, Illinois, Ohio and Texas. All four states utilize cost-based weighting systems. As proposed by the NSHE, 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.

While the Subcommittee has requested more specific information on the methodology utilized by NCHEMS to arrive at the recommended discipline and instructional tier weights contained in the NSHE's proposal, specific, detailed information has not been provided. Based upon the general information provided, it appears the NCHEMS-recommended weights are based upon the observed relationships in the four states' weighting of disciplines and instructional tiers. The specific methodology used by NCHEMS to translate the observed relationships into the recommended weights has not

been provided. Absent a cost study being conducted in Nevada, it is unclear how close the NSHE's proposed discipline and tier weights represent actual cost.

The Subcommittee has spent considerable time discussing this aspect of the NSHE's proposal, most recently at its July 11, 2012, meeting. At that meeting, the Subcommittee discussed a differential weighting of credit hours across institutional tiers, a common weighting for core versus non-core general education credit hours required for degrees and the weighting of credit hours to promote alignment. The Subcommittee requested that the Chancellor's Office provide additional information related to these issues. That information is provided under Question #1 on pages 1 through 5 and Appendices A and B (pages 9-14) of the NSHE's August 6, 2012, response materials. Finally, the Subcommittee also discussed the possible benefit (transparency, ease of understanding) in not expanding the proposed weighting system and utilizing the performance funding to incentivize policy goals.

The Chancellor's Office has consistently recommended that credit hours only be weighted for cost. According to SRI International, "program level and cost matrices can be a best practice if the policy decision is to fund according to the actual cost of a course. However, care should be taken in how courses are classified and costs calculated." SRI International's testimony on this topic has been supportive of formula simplicity and transparency with policy alignment goals addressed through performance funding.

It appears the Subcommittee has options with regard to the weighting of student credit hours. These are:

- 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 could adopt the discipline clusters and the weights for each instructional tier utilized by the State of Texas. If the Subcommittee chooses this option, the Subcommittee may wish to consider whether the linkage to another state is to be time limited, such as until such time as a cost study is conducted by the Board of Regents.**
- c. Recommend student credit hours be differentially weighted across institutional tiers and/or by type of course (remedial or for credit towards degree). Weighting courses differentially by institution and/or for type allows the Subcommittee to recognize differences in cost 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. The issue of remedial instruction is more fully discussed under Major Issues #7.**

What recommendation does the Subcommittee wish to make?

4. Small Institution Funding for Administrative Infrastructure Costs

Summary of Issue: As proposed by the NSHE, additional General Fund appropriations are recommended for Great Basin College (GBC) and Western Nevada College (WNC) to address an economy of scale funding issue. The NSHE indicates, “every institution has a base amount of fixed administrative costs that exist regardless of student body size, and small community colleges do not have sufficient student credit hours to cover this overhead cost and provide instruction.” The NSHE proposal provides additional base funding of \$1.5 million to GBC and WNC at ≤50,000 weighted credit hours, which decreases (by approximately \$32.00 per weighted credit hour beginning at 50,001 credit hours) as each institution’s student credit hours increase. At 100,000 weighted student credit hours, institutions would not receive additional funding. General Fund appropriations decrease based upon the expected increase in student-derived revenues resulting from increased credit hours taken.

The existing, but suspended funding formula also provided economies of scale-adjusted funding at GBC and WNC by utilizing enhanced student-to-faculty ratios and different institutional support factors than at CSN and TMCC. Additionally, compared to CSN, TMCC and WNC, different academic support and student support services factors were approved for GBC.

As proposed, the General Fund appropriations supporting this factor are allocated first, thereby reducing the amount of General Fund appropriations otherwise available to be allocated based upon credit hours. As reflected in the NSHE’s original scenario, of the \$362.56 million in FY 2012 General Fund monies appropriated to the seven teaching institutions, \$1.92 million would be allocated first to GBC (\$1.11 million) and WNC (\$810,450) before the balance is distributed based upon credit hours. As was noted by the Fiscal Analysis Division at the Subcommittee’s July 11, 2012, meeting this funding issue is linked to the issue of how credit hours are defined. The more types (“F” grades) of completed credit hours the Subcommittee excludes, a greater amount of General Fund appropriation is allocated by this factor up to the \$1.5 million ceiling.

The information provided by SRI International does not appear to specifically address the use of “factors” or dedicated funding to address economies of scale.

The Subcommittee appears to have a number of options. These are:

- 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 different from 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.

What recommendation does the Subcommittee want to make?

5. Funding of Operations and Maintenance Costs

Summary of Issue: The funding of institutions’ costs for the operations and maintenance (O&M) of their physical plants under the NSHE proposal has been discussed extensively by both the full Committee as well as the Subcommittee. Under the NSHE formula proposal, O&M costs are included in the global weighted student credit hour “price” or cost and each institution’s president (subject to approval by the Board of Regents) will determine the amount of funding expended on O&M. This somewhat differs from the existing, but suspended funding formula in that the suspended formula included a specific component (sub-formula) for calculating O&M need at institutions. However, in both cases, it would remain up to the institution’s president to determine the actual expenditure level.

At the Subcommittee’s request, the Chancellor’s Office provided several scenarios in which projected O&M costs were excluded from the student credit hour “price” and funded first, similar to the proposed Small Institution Factor. As presented, these scenarios reduced by \$92.0 million the General Fund appropriations available for distribution among the institutions through the formula. As staff noted previously at the July 11, 2012, Subcommittee meeting, the \$92.0 million figure is not 100 percent General Fund appropriation, but rather the combined, budgeted expenditures from all revenue sources available to each institution. If the Subcommittee were interested in recommending that General Fund appropriations in support of O&M costs were funded first, then the NSHE would need to provide the actual amount or an estimate of General Fund appropriation expended on O&M at each institution.

As the Subcommittee discussed at its July 11, 2012, meeting the NSHE also proposes a “Research O&M” adjustment to provide additional General Fund appropriation to support the personnel and administrative overhead costs associated with research activities at UNLV and UNR. As proposed, the annual adjustment of \$6.80 million (\$3.22 million at UNLV and \$3.58 million at UNR) is allocated off-the top and distributed pre-formula to the two institutions. Although identified as support for O&M, the funding for this adjustment would not support O&M, but rather research personnel and administrative overhead and is discussed more completely under the next policy issue.

SRI International did not identify a specific, national best practice with regard to the formula funding of O&M. However, in its report to the Committee SRI International made the following observation: “The best practice to incentivize efficient use of space is to fund based on educational usage. Building and maintaining structures is not a higher education policy goal.” This appears to be consistent with the NSHE’s proposal.

The Subcommittee has several options with regard to the funding of O&M at the NSHE institutions. These are:

- a. Approve the approach to fund institution’s O&M costs as proposed by the NSHE, that is, include such costs in the global credit hour “price”**
- b. Approve an alternative approach where O&M costs are funded first, before General Fund appropriations are distributed among the institutions. If the Subcommittee chooses this option, it should ask the NSHE to provide each institution’s FY 2012 actual or estimated General Fund appropriation-supported O&M expenditures to serve as a benchmark. Additionally, to be consistent with the “flat” credit hour projection approach, the Subcommittee may wish to recommend that the same base year be used for purposes of determining O&M expenditures.**
- c. Recommend, irrespective of either Options a or b being adopted, that the formula factor for “Research Space O&M” be eliminated. The Research O&M factor is fully discussed in the next policy issue section.**
- d. If the Subcommittee recommends that the “Research Space O&M” be eliminated, the Subcommittee may wish to also recommend that the funding identified for UNR be used for stop-loss purposes during the phase-in period of the new funding formula.**

Does the Subcommittee want to make a recommendation and if so, what recommendation does it want to make?

6. Funding of Research-Related Operating Costs

Summary of Issue: The NSHE proposal includes two adjustments to fund the personnel and administrative costs identified as being associated with the universities’ research missions. However, based upon the information provided, the adjustments neither fund actual research nor research equipment, travel or research space O&M.

The first adjustment is a 10.0 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 different faculty and administrative overhead costs of research universities. The 10.0 percent adjustment is applied to the universities' credit hours after the credit hours have been weighted for cost. According to the Chancellor's Office, the 10.0 percent research adjustment contributes an additional 57,132 weighted credit hours valued at \$7.57 million for UNLV and 40,199 weighted credit hours valued at \$5.33 million for UNR. The value is based upon the proposed credit hour "price" of \$132.56. Staff would also note that the above credit hour totals and amounts are based upon all grades except "W" being included in the count of weighted credit hours. If the Subcommittee's recommendation under Major Issue #1 were that additional letter grades be excluded, then the value of the 10.0 percent adjustment would likely be decreased. The Chancellor's Office would need to provide revised figures. Under the NSHE proposal, this funding adjustment is not an off-the-top, pre-formula distribution. Rather, this adjustment adds to the count credit hours at UNLV and UNR upon which funds are subsequently distributed.

The Fiscal Analysis Division would note that the information provided on how the 10.0 percent adjustment was determined and its relationship to the actual personnel and administrative overhead costs it is intended to support was neither specific nor detailed. Additionally, if the Subcommittee recommends a cost study be conducted or adopts the cost-study supported weights of another state, it might consider not recommending the 10.0 percent adjustment until it can be determined that there are unfunded research related costs.

As the Subcommittee discussed at its July 11, 2012, meeting the NSHE also proposes a "Research O&M" adjustment to provide additional General Fund appropriation to support the personnel and administrative overhead costs associated with research activities at UNLV and UNR. As proposed, the annual adjustment of \$6.80 million (\$3.22 million at UNLV and \$3.58 million at UNR) is allocated off-the top and distributed pre-formula to the two institutions. Based upon testimony provided by the Chancellor's Office at the July 11, 2012, meeting the O&M costs for non-instructional research space are already included in the overall funding of O&M. The \$6.80 million is a calculated value of the state-supported, non-instructional research square footage multiplied by a cost per square foot.

The existing, but suspended, funding formula does not specifically fund research-related operating costs. Instead, the administrative overhead costs of the institutions' research activities were understood to be funded through a combination of the General Fund monies appropriated and the allowable indirect cost recoveries charged to each grant. The 2005 Legislature approved a change in budget policy (effective FY 2008) that allowed the institutions to retain 100 percent of the indirect/administrative cost recovery collected without a corresponding reduction in budgeted General Fund appropriations. Previously, a percentage of these revenues was budgeted in the state-supported operating budgets and offset General Fund appropriations in the budgeting process. Because these revenues are now budgeted outside of the state supported operating budgets, it is unclear the amount of indirect cost recovery funding each institution generates annually.

Staff would note that the NSHE does receive General Fund appropriations dedicated to providing matching funds to research grants through the Special Projects budget account. General Fund appropriations in the amount of \$1.95 million were approved by the 2011 Legislature for each fiscal year of the 2011-13 biennium.

According to SRI International, eight states (Alabama, Arkansas, Florida, Georgia, Massachusetts, Minnesota, South Carolina and Texas) include a research factor in their funding formulas. While there does not appear to be national best practice upon which the Subcommittee can draw, in its report, SRI International noted that a new funding formula should focus wholly on instruction and not include funding for research. While state funding support for research was indeed appropriate and critical, such funding should occur outside of the funding formula and through a parallel mechanism such as the Knowledge Fund (Assembly Bill 449 of the 2011 Legislature).

In considering the funding of research-related operating costs as part of a funding formula, the Subcommittee may wish to consider options that include:

- a. Adopt both the 10.0 percent credit hour weighting factor and the “off-the-top” research O&M factor as recommended by the NSHE.**
- b. Adopt the 10.0 percent credit hour weighting factor, but not the “off-the-top” O&M factor. Alternatively, the Subcommittee could recommend the latter and not the former.**
- c. If the Subcommittee chooses to recommend the credit hour weighting factor, it may wish to recommend a percentage other than the 10.0 percent proposed by the NSHE. The Subcommittee could also adjust the type of credit hours eligible for the research factor by limiting the factor to graduate level courses. Depending upon the definition of completed credit hour (certain letter grades excluded in whole or part) recommended by the Subcommittee, as well as the type of credit hours included, the value of the 10.0 percent factor may differ from the \$12.90 million proposed by the NSHE. The Subcommittee will want the NSHE to recalculate the revised value based upon the Subcommittee’s recommendation.**
- d. Do not recommend General Fund appropriation adjustments to the funding formula for research-related operating costs.**

What recommendation does the Subcommittee wish to make?

7. Funding of Remedial Instruction

Summary of Issue: The Committee as well as the Subcommittee expressed an interest in whether remedial instruction costs should be included in the funding formula. While the existing but suspended funding formula did not specifically fund remedial education, credit hours associated with remedial instruction were not specifically excluded and were, therefore, funded with General Fund appropriations. 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. As a result, beginning in FY 2007, remedial instruction credit hours were not included in the count of full-time student equivalents

(SFTE) at the two universities but continued to be included in the count of SFTE at NSC and the community colleges.

The NSHE's proposal does not provide additional weighting or a funding factor for remedial instruction. According to the Chancellor's Office, remedial instruction credit hours receive the base 1.0 weighting. Consistent with the aforementioned budget policy, remedial instruction credit hours are only counted at NSC and the community colleges.

According to SRI International, the states of Alabama, Illinois and North Carolina specifically address funding remedial education in their respective funding formulas. SRI International's recommendation is that the funding of remedial instruction should be continued at NSC and the community colleges and the success of remedial instruction is of such criticality to Nevada that extra weight should be given for both remedial classes (credit hours) and hands-on counseling.

In considering the funding of remedial instruction operating costs as part of a funding formula, the Subcommittee may wish to consider options including:

- 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. 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.**

Does the Subcommittee wish to make a recommendation regarding formula funding of remedial instruction?

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

Summary of Issue: The state supported operating budgets of 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. The budgets have been funded through the traditional Base-Maintenance-Enhancement budget process and are considered "non-formula". Consistent with the prior formula, the NSHE's funding formula proposal also does not include the three schools.

While the discussions of the Committee and Funding Formula Subcommittee have included mention of the Medical, Law and Dental Schools, the discussions have not been substantive. For purposes of establishing a formal recommendation as to the continued funding of the three professional schools, the Fiscal Analysis Division recommends the Subcommittee adopt a recommendation addressing the schools' funding.

Does the Subcommittee want to recommend that the Medical School, Law School and Dental School be excluded from the funding formula with annual General Fund appropriations calculated through the Base-Maintenance-Enhancement budget methodology?

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

Summary of Issue: The state supported operating budget of the Desert Research Institute (DRI) has traditionally been funded through the Base-Maintenance-Enhancement budget process with the exception of O&M costs that have been calculated and funded through the formula. Otherwise, DRI's state supported operating budget has been considered "non-formula." As originally recommended in the NSHE's funding formula proposal DRI was provisionally excluded, subject to further review.

On August 6, 2012, the Chancellor's Office provided the Fiscal Analysis Division with a revised formula-based proposal for the DRI. Staff's understanding is that 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. Staff also understands that the intent of the formula approach is to provide DRI with an "automatic growth" mechanism analogous to completed credit hours at the teaching institutions. When completed credit hours increase at a teaching institution, under the formula, additional General Fund appropriations would be budgeted, subject to appropriation by the Legislature. As proposed for DRI, as funded grant expenditures increase, the formula would calculate greater General Fund appropriation support. Staff would point out that the traditional Base-Maintenance-Enhancement approach also provides a "growth" mechanism for DRI.

Currently, all of DRI's grant supported research revenues and expenditures are budgeted outside of the state supported operating budget. Additionally, all indirect cost recovery revenues and expenditures are also budgeted outside of DRI's state supported operating budget.

As with the formula proposal for the seven teaching institutions, the Chancellor's Office is proposing that this formula will initially be General Fund appropriation neutral. A copy of the DRI formula proposal is included in the Subcommittee meeting materials.

There are a number of aspects of the proposed formula approach that require clarification. These include: 1) the total level of grant supported research expenditures; 2) the amount of indirect cost recovery currently collected; 3) the DRI operating costs funded by those revenues; 4) the type of expenditures the additional General Fund appropriations would fund; and 5) whether this proposal is more appropriately considered for performance funding rather than being the basis for DRI's "base" funding.

The Subcommittee has several options with regard to including or excluding DRI in a funding formula. These include:

- a. Recommend that funding for DRI's state supported operating budget continue to be calculated through the Base-Maintenance-Enhancement budget building approach.**
- b. Provisionally adopt the new formula proposed by the Chancellor's Office subject to further clarification being provided.**

- c. Provisionally adopt the new formula proposal but cap or limit funding to not exceed the 6.70 percent of non-formula General Fund appropriation that DRI's \$7.42 million represents in the current biennium.
- d. Recommend that the proposal be considered as part of any performance funding approach approved by the Performance Pool, Economic and Work Force Development, and Research Subcommittee as well as the full Committee.

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

Summary of Issue: The final issue the Subcommittee should address is the implementation process and time period in which a new funding formula is implemented for the NSHE teaching institutions. The NSHE 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." When the existing funding formula was adopted and implemented by the 2001 Legislature, a two-biennia implementation period was adopted along with provisions for "holding harmless" institution's appropriation levels. SRI International's report does not appear to offer a recommendation on this topic.

Options available to the Subcommittee include:

- 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 the two biennia (4-year) period suggested by the NSHE. If the Subcommittee adopts this option, the Subcommittee may wish to include a "stop-loss" provision such as clarifying that the change in institution's formula calculated General Fund appropriations, exclusive of performance funding, shall not decrease more than a maximum percentage per year. If a 4-year approach is recommended, that suggests a maximum change limit of 25.0 percent in the first year and plus (+) 25.0 percent in each succeeding year until 100 percent is reached in Year 4.

Based upon the Subcommittee's actions, staff will prepare a report containing the recommendations for the full Committee's consideration at the final meeting on Wednesday, August 29, 2012.