MINUTES OF THE
COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION
(Senate Bill 374 of the 2011 Legislative Session)
April 25, 2012

The Committee to Study the Funding of Higher Education (Senate Bill 374 of the 2011 Legislative Session) held its fourth meeting of the 2011-12 Interim on April 25, 2012, in room 4401, Grant Sawyer State Office Building, Las Vegas, Nevada. The meeting was videoconferenced to room 3137, Legislative Building, 401 South Carson Street, Carson City, Nevada and room 124, Greenhaw Technical Arts Building, 1500 College Parkway, Great Basin College, Elko, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:
Senator Steven Horsford, Chairman
Senator Ben Kieckhefer
Senator David Parks
Assemblyman Paul Aizley
Assemblyman Pat Hickey
Assemblywoman Debbie Smith
Hugh Anderson
Heidi Gansert
Gregory Mosier
Kevin Page
Spencer Stewart
Michael Wixom

COMMITTEE MEMBERS PRESENT IN CARSON CITY:
Mike Dillon
Jason Geddes
Julia Teska

COMMITTEE MEMBERS PRESENT IN ELKO:
None

COMMITTEE MEMBERS ABSENT:
Michael Richards

STAFF MEMBERS PRESENT IN LAS VEGAS:
Alex Haartz, Program Analyst, Fiscal Analysis Division
Brenda Erdoes, Legislative Counsel, Legal Division

STAFF MEMBERS PRESENT IN CARSON CITY:
Mark Krmpotic, Senate Fiscal Analyst, Fiscal Analysis Division
Rick Combs, Assembly Fiscal Analyst, Fiscal Analysis Division
Brian Burke, Senior Program Analyst, Fiscal Analysis Division
Eileen O'Grady, Chief Deputy Legislative Counsel, Legal Division
Kristin Roberts, Senior Principal Deputy Legislative Counsel, Legal Division
Patti Sullivan, Committee Secretary, Fiscal Analysis Division

EXHIBITS:
Exhibit A – Agenda and Meeting Packet
Exhibit B – SRI International – Analysis of States' Budgeting Practices Pertaining to Student-Derived Revenues

I. ROLL CALL.

Chairman Horsford called the meeting of the Committee to Study the Funding of Higher Education to order at 9:06 a.m. and the secretary called roll. All the members were present at the meeting, with attendance in Las Vegas and Carson City, except Dr. Richards who was absent excused.

II. PUBLIC COMMENT.

Chairman Horsford asked for public comment on any agenda item from attendees in Las Vegas, Carson City, and Elko.

Gregory Brown, Chair, University of Nevada, Las Vegas (UNLV), Faculty Senate, submitted a written resolution passed by the Faculty Senate on a technical point related to the funding formula, which concerned the prospect of compensation restoration or any eventual enhancements that would be funded by the state. Dr. Brown said it was important for students to understand the principle that student fees were being committed to educational purposes including instructional compensation. The Senate Faculty's point was to show their advocacy outside of the Committee to Study the Funding of Higher Education for restoration of compensation based upon state allocation rather than redistribution of student fees.

The following written testimony was received by Dr. Brown:

> UNLV Faculty Senate approved resolution: *"The UNLV Faculty Senate resolves that the System of Higher Education ought to calculate in its budget request to the legislature, any restorations or eventual enhancements of faculty and staff compensation separately*

from the campus allocations calculated through the funding formula, which will allocate funding based on student course and degree completions. Cuts to campus budgets as a result of legislatively enacted furloughs and pay cuts were implemented in 2009 based upon 4.6% of actual salary lines. Therefore, state money allocated to restore or enhance compensation in 2013 ought to be attributed to campus budgets based upon actual salary lines as well."

In short, any restoration for compensation ought to be included directly in campus base budgets, just as reductions in compensation were taken directly from campus base budgets in 2009.

This would not only be consistent with the practice of other states that have implemented funding formulas based on student outcomes -- but would send an important message to students, assuring them that any restoration of competitive compensation would be based upon additional state allocation, not based – as the Board made clear at its December and January meetings – on student fee increments.

Assuring quality education through recruitment and retainment of the best faculty must be paired with a commitment to access and affordability for students. Calculating restoration of salary separately from the formula, we believe, supports these two objectives.

I would like to add one more point about this resolution and the earlier resolution on compensation that we presented at the March 1 meeting. Assuring quality education through recruitment and retainment of the best faculty must be paired with a commitment to access and affordability for students. And to this end, I and UNLV Senate chair-elect Shannon Sumpter intend to charge the chairs of our Admissions and Academic Standards committees to work with several graduate and undergraduate student leaders to advocate specifically for affordability and access in 2012 - 2013. Affordability is a complex issue involving a range of public policy questions and we hope this group will help provide an informed, credible and effective voice for UNLV's and NSHE's continuing efforts on this point.

*2009/2011: 4.6/ 4.8% of full NSHE payroll cut from state appropriation to NSHE *Chancellor's Formula proposal based on FY12 ◦(without state restoration of salary) *Proposed formula based entirely on student outputs: courses, degrees
*State put-backs will be calculated on % of salary pool (eg. 4.8%)
*Any eventual enhancements over 2009 (COLA, merit) will be allocated based on % of salary pool
*Resolution: restored/ enhanced directly to campus, outside formula

Chairman Horsford indicated there would be time reserved on the May 23, 2012, meeting agenda for faculty and student input on any concerns or issues to be brought forth before the committee.

There was no further public comment.

III. PRESENTATION AND DISCUSSION REGARDING THE ALTERNATIVE HIGHER EDUCATION FUNDING FORMULA PROPOSED BY THE NEVADA SYSTEM OF HIGHER EDUCATION.

Daniel Klaich, Chancellor, Nevada System of Higher Education first pointed out the responses to questions posed by the committee and Legislative Counsel Bureau staff located in the meeting packet (Exhibit A) starting on page 13. He indicated some of the responses from the Nevada System of Higher Education (NSHE) were not as detailed as usual only because the information on the new funding model proposed by NSHE continued to be a work in process. Chancellor Klaich said it was not NSHE staff's intent to be evasive, but as additional information was developed, especially in conjunction with the committee's consultant SRI International, NSHE staff would supplement the answers. He started his presentation and wanted to focus on the items that had changed since the April 25, 2012, committee meeting. Chancellor Klaich said a new document (Exhibit A, page 3), provided by NSHE, outlined the principles of the proposed model and described conceptually the methodology used in the model, which he said attempted to put the whole process to-date in perspective in order for the members to have an understanding of what NSHE had done although it contained basically the same information presented at previous meetings. In his last appearance before the committee he had not made a recommendation on how to treat the operation and maintenance of buildings, which was a significant line item in NSHE's budget. The institutions budgeted approximately $94 million of state appropriations for operation and maintenance. After much discussion, NSHE proposed a hybrid recommendation to treat buildings as capacity elements in the formula. Chancellor Klaich explained when the state or private donors constructed a campus building it created a capacity to educate and house students which ultimately creates the weighted student credit hours that drove the new funding model. He said in the new model, NSHE had largely rolled the $94 million of operation and maintenance funding into the portion of the formula that created the weighted student credit hours. After discussion with UNR and UNLV, NSHE also suggested, for a limited category of research buildings that did not fit the philosophical basis or related to the instructional capacity of the institutions, that those costs be exempted and funded separately.

Moving on, Chancellor Klaich reported that NSHE staff had been in contact with committee consultant SRI International from the time they were selected by the committee and had assisted them in setting up meetings throughout the System. He commented that NSHE appreciated SRI reaching out to them and the System was committed to supply any necessary information in order to make recommendation to the committee. He thought the concept of performance funding would be a work in process for the committee, the System and the Governor's Office through the National Governors Association Policy Academy, with substantial input from SRI. There had been two Academy visits and the Chancellor said NSHE had provided a skeleton plan for the performance pool. He also reported on what he characterized to be in the category of implementation, which needed to be considered. Chancellor Klaich indicated NSHE conducted its analysis in a revenue neutral model. The reasoning for doing so would enable the committee to analyze what NSHE had done without taking into account whether there was an intent, subliminal or otherwise, to utilize this process to generate more funding for higher education. The chart on page 12 (Exhibit A) exhibited that in a revenue neutral context there were institutions that would receive additional General Fund appropriations and institutions that would lose General Fund appropriations as a result of the proposal. He said the General Fund dollars lost by northern community colleges was significant and the cuts too deep for those colleges to continue to discharge their missions to the communities they serve. NSHE intended to bring recommendations to the committee regarding phasing and mitigation that would allow a reasonable amount of time for those institutions to implement different policies.

Chairman Horsford appreciated the update. In order for the members to have a complete understanding of what was recommended in the proposed model he asked to have an in depth discussion on the details of the model and the responses to the questions (Exhibit A, pages 13 to 44) from committee members and staff. Chairman Horsford thought the committee members had been clear in what they wanted to achieve with a new funding formula. He said whatever new funding model was agreed upon, it needed to be simple, fair to all the institutions, and equitable, which would position the state's community colleges, universities, state college and research institutions to be more successful from an entrepreneurial and mission driven standpoint in serving the students and the community. He did not want to jump quickly into a new model without deciding on the components of any model that needed to be agreed upon by policy. The Board of Regents needed to set the policy for any new model along with the Chancellor and then have it agreed to by the Governor and the Legislature. Chairman Horsford asked Chancellor Klaich to discuss the framework of the proposed model and how it differed from the current formula, especially as the committee began to hear how other states approached their funding formulas. He was intrigued by one point in SRI's first deliverable, which was the concept of integrated versus distributed; however, he had not seen it in NSHE's proposal. He thought that the current formula was more of an integrated model based on the fact that it started with fees and tuition and then added state support.

Chancellor Klaich agreed that developing a new funding formula was moving quickly and that there were a number of policy decisions that were inherent in the model in need of vetting by the committee, the Board of Regents, the Legislature and the Governor. As indicated in the first committee meeting, he said NSHE responded to a circumstance where the current formula lacked credibility and was in need of revamping. Chancellor Klaich said the main differences started with the proposal being based on outputs as opposed to the current formula being based on inputs. He explained that for about 20 years starting from the middle of the 1980's, Nevada tried to keep up with growth in the state, especially in Clark County. During that growth, the Legislature gave NSHE a mission to provide access to students, a place where students could come for higher education and the primary driver for the formula was enrollment. NSHE provided access and met those parameters under the current formula, but as the economy slowed and as the growth of the state slowed NSHE looked at the primary drivers of the financing of higher education in the United States. It was clear that access/enrollment was less of a driver and that completion was taking precedence in many modern formula discussions, which was what was also needed in Nevada. Surveys done through the Nevada Vision Stakeholders Group, SRI Brookings and others showed there was a great need for post-secondary educated Nevadans in the next 20 years. He said the businesses that the state wanted to attract to diversify the economy required more highly educated citizens and post-secondary education, from certificates of value to four-year degrees to Ph.D's. The proposal from NSHE tried to create an output based model built upon the fact that institutions teach and, hopefully well enough, to ensure student completions. The proposal was based on the completion of courses at various institutions. However, as every course is not equal in its cost to an institution, the National Center for Higher Education Management Systems (NCHEMS) was asked to help NSHE weight the various costs of course offerings in order to understand the cost of completing and the value to the state of completing an upper-level engineering course which was more expensive than a lower division Sociology course. Chancellor Klaich explained NSHE took the weights and multiplied them to find out how many weighted student credit hours were completed. That number was divided by the number of General Fund dollars appropriated by the Legislature and arrived at the price that the state essentially paid for the completion of the work and multiplied it by the completed credit hours. In addition, and greatly differing from the current formula, was that the model was based on General Fund distribution only, with student fees and out-of-state tuition built on top of that funding. He indicated one criticism of the integrated model was how it treated out-of-state tuition and as it applied to UNLV because in the current formula for every dollar in out-of-state tuition that an institution generated it lost a dollar of General Funds. Chancellor Klaich said the institutions were expected to be more flexible and entrepreneurial and to do so the institutions had to be incentivized to raise that money, which was not done in the current formula. NSHE's proposed model moved from an integrated model to the distributed model that allocated state General Funds and then added whatever fees and tuition an institution generated to derive the total revenue it had to spend on the education of its students. It essentially put the burden on the institutions to determine how to attract out-of-state students. He said since the proposed model asked to leave the fees and tuition on campus the student credit hour model was based on the weighted student credit hours of only Nevada residents. Chancellor Klaich pointed out that for the first time, the model provided for a formula funding mechanism for research at UNLV and UNR. NSHE based it on what it deemed as a clear policy movement of the state of Nevada to more clearly align the mission of NSHE with larger goals of the state, which were reflected in the new economic development structure, the knowledge fund and the message of performing more research. NSHE recognized there was a certain economy of scale and so it was suggested in the model for a base funding factor particularly for the small community colleges – Western Nevada College (WNC), Great Basin

College (GBC) – that serve a great part of rural Nevada, which would allow them to do their work. Chancellor Klaich ended his presentation without addressing metrics of the performance pool; although he stated it was a significant part of the proposal. He looked forward to working with the committee, the Governor's office and SRI to refine the concept of performance funding.

Chairman Horsford did not want to oversimplify it and not get into the details, but wanted to recap what Chancellor Klaich said in his presentation to make sure that all the major components were covered. He thought everyone agreed that outputs versus inputs was a desired component along with weighted student credit hours; although, there needed to be further clarification on how NSHE arrived at the weights. The research funding component, the performance pool component and the base funding factor for small colleges were all included in the presentation; however, nothing was mentioned specifically for workforce training. In addition, Chairman Horsford said the proposed model started with basic support and then the fees and tuition by campus were added to it. Chancellor Klaich confirmed that was correct. Chairman Horsford asked the committee members or others to identify any other major policy components they thought needed to be part of the overall discussion of the formula. He would come back to Chancellor Klaich who could explain to the members if the components were represented in NSHE's plan and if not then he wanted a more detailed discussion.

Senator Kieckhefer wanted more clarity on how NSHE was addressing issues regarding higher education's role in alignment of workforce and economic development, but he thought it might tie into how the performance pool would be financed.

Mrs. Gansert said as more students were expected to complete their education, she wanted to make sure quality did not decrease. She also asked for access for disadvantaged students. Chairman Horsford said the SRI report specifically identified the low-income, disadvantaged student in other state components for its formula plan.

Mr. Anderson was concerned with protecting the integrity of the output and the issue of grade inflation to make sure the "widgets get out the door." Chairman Horsford also wanted the Chancellor to address whether any funding went toward remedial instruction.

Mr. Page pointed out that Nevada State College (NSC) used to be a rural factor and asked why NSC was not included in the small institutional factor. The schools associated with the small institutional factor because of administrative costs and he thought combining those costs should be considered.

Dr. Mosier wanted to see more substantiated information why there was perceived to be a direct correlation between graduate student credit hours and research. He thought graduate student credit hours could come out in many ways including professional programs, social science programs and hard science programs.

Mr. Dillon wanted to know the definition of a completed course.

Chairman Horsford asked Chancellor Klaich to address all the members concerns as well as explain the weighted credit student hour concept.

Chancellor Klaich said NSHE's model was a performance based model and a completion was anything but a withdrawal, which included a failure. This concept had been discussed a lot by his staff and he thought it was a policy consideration that the committee would want to address. He indicated that no one wanted grade inflation and it was desired for a classroom faculty member to have the freedom to fail a student who had not done the expected work to complete the class. Chancellor Klaich explained the institution had associated costs with a student sitting in a classroom throughout the semester whether or not the student passed the class; however, if a student withdrew from a class it was simply not completed.

Senator Kieckhefer wanted more information related to the chart on page 30 (Exhibit A) regarding weighted student credit hour grades other than A through D. He understood why the grade "X" would warrant a student credit hour because it signified a course that was in progress with a student working on campus and interacting with faculty during a dissertation. He took exception with including an incomplete, which he noted was opposite of complete, including a failing grade, because it did not seem to advance the agenda of success. Senator Kieckhefer pointed out the Chancellor used the term "completion agenda," and to him an F grade did not get a student toward completion of credit hours toward a degree. He ran quick numbers for UNR and UNLV regarding grades other than A through D based on information in the meeting packet formula document. He determined that 7 percent of UNLV's student credit hours and 10 percent of UNR's weighted student credit hours, which did not include the X's and withdrawals, were other grades besides A through D. Senator Kieckhefer needed clarity on how those percentages broke down in terms of how many were withdrawals, incompletes and failures. If the mission was to get students toward completion, a failure did not do that and he thought that a student's grade should be partnership between the faculty and the student to ensure that the student did not fail. Senator Kieckhefer would have a hard time supporting something that included failure as completion and success.

Chancellor Klaich understood Senator Kieckhefer's point and said NSHE would breakdown the details of the weighted student credit hours that fit into each category. He was concerned about essentially eliminating from the category the possibility of failing a course because of the difficulty to assure that would be the end of F grades in the system. He thought that rigor and assessment had to be part of the funding formula model, but believed once the work was done by a faculty member and that faculty member determined the coursework had not been completed, the institution should not be penalized by having its state appropriation lowered.

Chairman Horsford pointed out that was a key policy issue in which he would ask one of the subcommittees to address and work with the Chancellor and SRI to see how other states approached the matter. He realized the Chancellor had his position on the subject, but others had their views as well and they would have to reach consensus or one side would win the debate.

Dr. Mosier said in his experience a large majority of students who achieved an F grade had done so because they had enrolled and never came to class, or quit coming to class at a very early stage. He stated there was a misconception that a student who achieved an F grade was a student that came to class every day, taking up space, and using instructional resources; therefore, the institution was investing something in them and they were investing in the class. Dr. Mosier thought if the student was not in class, no state resources were utilized and there was no investment.

Chancellor Klaich said there might not be an actual cost; however, there was an opportunity cost because that student had taken a seat from another student who might have wanted to be in that class to take advantage of the knowledge of the faculty member.

Dr. Mosier said that perhaps different policies could be addressed on how students were allowed to take up space when not actually attending class rather than trying to put a student who never really participated in the academic enterprise under the label of a completer.

Chairman Horsford said that was something he would ask the subcommittees to address. He then asked Chancellor Klaich to talk about the weighted student credit hour.

Chancellor Klaich explained that NSHE wanted to establish some independence in the weighted student credit hour portion of the model so it consulted with NCHEMS who had national exposure to formula funding. NSHE asked them based on their knowledge to create the weighted student credit hour model without input from the System. He indicated NSHE had no input into the creation of the original draft of the matrix other than asking to be provided with a reflection on the vertical access of the different costs of discipline clusters and on the horizontal access the different cost of progression from entering freshmen to graduate student. NCHEMS referenced a number of states indicated to have done cost studies and the response (page 20, Exhibit A) was a prepared cost informed matrix, not a solely cost driven matrix, which reflected the rough differential of costs based on those studies and rounded to the levels to have whole integers. Chancellor Klaich said after the model was received from NCHEMS it was reviewed and the System gave its first input into the matrix by characterizing things that needed correction, which included eliminating one unnecessary category and adding a major category that NCHEMS had not included. The System then looked at every course completed within the System at every teaching institution and populated the matrix, multiplied it by the weighting received from NCHEMS to arrive at the overall weighted student credit hours offered through the System of approximately 2.6 million.

Chairman Horsford asked if the weighted student credit hour concept was the same regardless of the institution type. Chancellor Klaich said yes. Chairman Horsford said that seemed too much like “one size fits all” based on the mission difference between the community colleges, a state college and the research universities. He asked why it was the same approach for all the institutions types.

Chancellor Klaich said Chairman Horsford might be right. Part of the analysis performed by NSHE staff was more of a pricing analysis than a cost analysis, which asked what the state of Nevada was willing to pay for English 101 and should it matter what the state reimburses for English 101 whether a student takes it at Great Basin College or Nevada State College. Ultimately it was decided that one price for the state was more reasonable than multiple prices. Chancellor Klaich noted that arguments could be made that faculty costs were higher at a university versus Nevada State College versus a community college. However, it could be questioned whether highly priced faculty was teaching 100 level classes or whether teaching assistant teaching those classes. He indicated it was extremely difficult to define the exact cost. The current formula recognized different levels of cost and severely underfunded the community colleges and the state college. It was determined that the 60 to 40 ratio was a negative factor for the state college and the community colleges and as a policy decision NSHE recommended that it should be eliminated.

Chairman Horsford suggested for there to be a policy discussion on if the weighted student credit hour should be based on a general price of the cost of instruction by institution.

Chancellor Klaich said NSHE recommended a single price for the state of Nevada.

Chairman Horsford wanted to have a discussion because he thought English 101 as the same course and achieving the same credit goal, but where it was delivered, how it was delivered, and who delivered it mattered. He said if the cost was inflated to have an English 101 class at a community college, a state college versus the university and it would be valued the same he saw that at as a one size fits all approach, which did not allow the flexibility that each institution might be able to leverage.

Chancellor Klaich clarified whether the discussion on the price and equality was with respect to General Funds. Chairman Horsford said yes; the proposed model had General Fund as the base of the allocation with tuition and fees set aside and staying at the campus.

Chancellor Klaich said he was certainly asking the committee to put tuition and fees aside and allow them to remain on the campus where they are generated. He was speaking about the amount of total revenue that would be available at the different institutions because all the base funding from the state would be the same. For example, UNLV would have a more significant amount of revenue available to it than WNC.

Chairman Horsford asked why that mattered and thought that was the problem with the current formula.

Chancellor Klaich said it mattered in the sense of the available total revenue to discharge the mission, but if the question was whether the institution had the ability to discharge its mission within and the revenues available then he thought the committee could discuss it and take that into consideration. He stood by the policy decision that NSHE recommended in it proposed funding model. Chancellor Klaich said it was important to clearly understand the chart of page 10 (Exhibit A) and that the chart and the questions asked about the various drivers of the formula were interrelated. He thought each one could be discussed and how NSHE could more clearly reflect the cost of each institution or its ability to discharge is mission to the state and then the modeling flips. Chancellor Klaich said NSHE tried to provide the committee with a model that made sense and was workable during the 2013 Legislative Session.

Chairman Horsford thought the formula should be reformed based on the guiding principles, based on the drivers and the major components that were policy related in the proposed model. Once the policies were agreed upon then the numbers could be run to make sure that it was fair, equitable, achieved the mission of each institution, and achieved the guiding principles, but not in a way that reverts back to the old formula in some ways. He worried about using state support, but then still considering how much an institution was collecting in tuition. He asked if that would throw off the equitable allocation of state support regardless of how much tuition and fees were generated.

Chancellor Klaich said he did not think it would affect the equitable allocation of state support, but understood how he confused the issue.

Mrs. Gansert asked if the weight of an undergraduate English course at a community college was the same weight at a university. Chancellor Klaich said that was correct. Mrs. Gansert thought those classes were a foundation toward the completion of a degree and a course taken at the community college was transferrable to a university so the value should be the same. To her it was not about what revenues were generated by the different types of institutions, but rather the value of that course toward the completion of a degree or equivalent. She looked at it as a value proposition for the student to take classes at community colleges because they were less expensive, transferrable and counted toward the completion of a degree.

Mr. Wixom recalled at the first committee meeting the question of whether or not this process should be cost driven. If it was cost driven then it created a whole host of issues. He was concerned as the discussion moved toward a cost driven model that it moved away from the focus of what the committee's discussion should be. Mr. Wixom thought the committee would have to look at the costs associated with institutions all over the country and perform an underlying analysis of the cost at each institution, which he likened to a black hole where the committee would get lost in the process. He said one of the objectives of the Board of Regents was common course numbering and through other efforts, the Board had been able to create a system that was as uniform as possible to facilitate transfers from on institution to another. He worried that if the focus was on a cost driven driver this mission would never get accomplished and it would take away from the overall policy objectives of the Board.

Dr. Mosier was curious about the role of national metrics or benchmarks relative to how Nevada's institutions were not competing against each other within the state, but rather, how Nevada's institutions were competing against institutions in other states and around the world. He noted that in the global economy it would matter a lot, rather than if one institution was doing a better job relative to a metric. Dr. Mosier asked if that would be addressed in the performance pool or were there plans to include national metrics.

Chancellor Klaich indicated that it had not yet been addressed in the performance pool, but was a possibility. However, he was not sure he agreed with Dr. Mosier's analysis, but understood his point. He wanted to make sure there was value at the end of the process before embarking on that path.

Mr. Wixom recalled some conversations that Dr. Geddes, Mr. Page and he had with Chancellor Klaich when originally looking at this proposal. He said one of the efforts made was to create an entrepreneurial system, a system that would drive efficiencies. A cost driven model would start to dictate cost from a macro level, which would disincent the institutions from creating efficiencies of scale and creating an entrepreneurial model that the System was trying to foster

Thinking from a student viewpoint, Chairman Horsford asked if the value of the basic education was the same at the community college, state college or university would the student pay the same price. To clarify his point, he said the state was paying the same price to each institution based on the weighted student credit hour model, but did the student pay the same price. Chancellor Klaich replied no and Chairman Horsford asked for the difference.

Chancellor Klaich explained NSHE looked at the missions of the institutions and the community colleges had always been access institutions. NSHE had always tried to keep the cost of the access institutions as low as possible to service the at-risk population, underserved minorities, first-generation students, and low-income families in order to offer higher education opportunities to those demographics. Chancellor Klaich said another message NSHE had received was that it was expected for each institution to carry more of its own weight. In looking at the marketplace, universities could afford to charge a higher amount because of the market they were in and they needed more money because of the intensity and variety of their offerings, the cost of start-up packages and facilities. Therefore, students bore a greater portion of the cost and that would consistent throughout the United States and in Nevada. Chancellor Klaich noted historically the budgets of the universities were less supported by state General Fund than those of the community colleges.

Mr. Aizley thought the committee was formed to study the funding formula and was not certain why transferability of classes was being discussed. He stated that English 101 had been used as an example for comparison of the weighted student credit hour, but why not use Chemistry 101 or Biology 101, because those classes were taught much differently at a community college than at a university. At a community college, the class would be smaller; the instructor likely also took care of the laboratory and taught the lab portion of the class. At a university, there would be 100 to 150 students in a Chemistry or Biology 101 class and the instructor would have several graduate students teaching the lab and doing the question and answer part of the class. He could not see how a multiplying factor equated those or even made them the same. Mr. Aizley was beginning to consider separate formulas, one for the universities and another for the community colleges and state college. He thought they were not the same and when a research component was added there was even more disparity among the institutions.

Chancellor Klaich understood the argument, but if the goal was to have a student complete a three-credit Chemistry 101 class, and if a goal was also to have entrepreneurial institutions who best use the assets from the state and the students he did not care how the institution discharged that mission. If the institution decided to have a large lecture section with breakouts at the universities versus small sections at the community colleges that is their choice, but he said the work had to be finished.

Mr. Aizley was puzzled that Chancellor Klaich did not care what it cost.

Chancellor Klaich stated he did not say he did not care what it cost, but said NSHE hired people to run institutions that the Legislature said must be more entrepreneurial and they are burdened by the formation of a budget based on the money that they can collect either from the state of Nevada or student and their families.

Chairman Horsford said Chancellor Klaich just made the point that universities had the ability to be more entrepreneurial based on the market that they serve than community colleges based on their access mission. Therefore, there needed to be a recognition of that in the weighted student credit hour approach because NSHE's approach was the same across all the institutions it did not take into account the differences. He was concerned about the one size fits all formula because not every student, every class, and every program was the same based on institution.

Chancellor Klaich thought the weighted student credit hour approach in NSHE's proposed model worked.

Chairman Horsford said with all due respect, he thought there had to be more than it worked with a justification or rationale to back it up.

Chancellor Klaich understood Chairman Horsford, but asked what the state of Nevada willing to pay for a completed course. He said it was the committee's decision to make and when the amount was determined then it was NSHE's obligation to see that in a tiered and mission differentiated system that students of all strata and income levels are served as well as possible. Chancellor Klaich indicated NSHE was attempting to correct serious deficiencies in the current formula including the 60:40 ratio at the community colleges. The current formula generated a faculty position and at the university level it was funded at 100 percent; however, at the community colleges it was funded at 60 percent as a full-time position and 40 percent as a part-time position, which was the lowest wage scale in the state. NSHE was attempting to correct that inequity and recognize the value and the mission of the community colleges and this leveling was one way of correcting what he viewed as a serious problem with the current formula.

Chairman Horsford thought the plan was moving in the right direction but there was still more work or more opportunity to get to the goal. He was not suggesting to keep the current formula; however, under the new proposed model the weighted student credit hour was not yet complete.

Chancellor Klaich said NSHE moved very quickly to present the new model to the committee and although NSHE worked hard to provide good material in the proposal, he did not claim to have all the knowledge. His goal was to work together with the committee and SRI to arrive at something even better for the state of Nevada.

Senator Kieckhefer asked if the research bonus was weighted 10 percent for all upper division, master's and doctoral classes, and if so, he wanted to know why instruction was being rewarded rather than having the bonus based on research itself.

Chancellor Klaich said the committee might arrive at a decision to base the bonus on research, but he thought the committee needed to look at where the institutions were presently and their ability to grow. He said NSHE was reflecting a system that had been in existence in the state since 1884 and during most of that time it was just one institution. Over the last 50 years, since the community colleges and UNLV were created the System had grown enormously and NSHE was trying to include something that respected the history of the System yet understood that the majority of the growth had been in Southern Nevada. He thought there needed to be a recognition in the new formula of the requirement of capacity building in Southern Nevada that was not even a factor in the first 75 years of the history of the University of Nevada.

Senator Kieckhefer said it sounded like NSHE created the research component to drive money to Southern Nevada.

Chancellor Klaich clarified what he said was that the University of Nevada, Reno has had a longer history in which to create a research faculty. If the award was solely based on the generation of research dollars of that faculty, which was also supported by a medical school, a formula might be created that never allowed for the University of Nevada, Las Vegas to achieve the kind of research infrastructure that was inherent at the University of Nevada, Reno.

Senator Kieckhefer said tailoring it to instruction rather than research did not make sense to him. He wondered if a baseline could be created in terms of research dollars and then put more of it into growth on a progressive scale to actually reward the development of research; otherwise, the state was not really funding research or rewarding research, but rewarding higher-level instruction instead.

Chancellor Klaich said that could be another way to it in the formula.

Chairman Horsford said that was the intent and concept behind the Knowledge Fund, although there was no money to fund that program, but in addition to the core mission there should be additional dollars beyond that to support research.

Senator Kieckhefer questioned the operations and maintenance (O&M) component of the model. He grew up in an old brick home saying it was expensive to heat and cool and things broke on a regular basis, where now he lives in a new home where there is little maintenance. Senator Kieckhefer did not buy into the idea that square footage drove instruction because the differential in maintaining and operating that square foot was very different depending on age, location, weather among other factors that drove some of those costs. He asked for an explanation of how the component was derived because originally it was going to be kept outside of the formula and then it moved into the formula.

Chancellor Klaich said Senator Kieckhefer had raised the dichotomy and the difficulty of the O&M component. For example, he said of the $362 million per annum that the state gave NSHE to fund the instruction of higher education $94 million was budgeted by the institutions for O&M. If the entire $94 million was taken out of the formula, it seemed that NSHE was saying the state would fund 100 percent of O&M and he did not think that made sense. It did not incentivize any positive behavior with respect to O&M especially if one institution was highly engaged in energy saving green technologies and worked throughout the campus and in doing so reduced its O&M budget from $30 million to $25 million that campus should be able to keep the $5 million difference in the savings. Chancellor Klaich did not want that money to go back into the pot to be shared by all the institutions that may not be working to find every penny of efficiency. He thought that Senator Kieckhefer's comments on the aspects of O&M were correct, but it did not seem to him they overrode the other policy decisions.

Senator Kieckhefer asked if the Chancellor's example worked conversely as well. He wondered how it would work when a campus built a new facility that would require a new amount of funding for O&M, but that facility did not necessarily or automatically drive an additional 5,000 students on the campus to help pay for the functioning of the new building.

Chancellor Klaich said there was no money for new O&M in the formula and in a discussion with the institution presidents they were told they would have to catch it up with future capacity. However, in an early discussion with SRI it was suggested that an amount for O&M could be provided for new buildings for a brief period of time, but those were issues he thought could be discussed through the subcommittees for possible recommendation.

Senator Kieckhefer appreciated the Chancellor's comments but was not sold yet on that idea.

Mrs. Gansert did not want to get caught up in the minutia and thought it would be helpful to keep the discussion at a high level because of wanting the university system to be entrepreneurial. There needed to be access for students and it was important to provide autonomy to the system so they could get the job done. Mrs. Gansert wanted to focus on the overall missions of the various institutions and what the objectives were as a state in educating students and in making sure that the state had an outstanding workforce.

Chancellor Klaich said there was an overall reform of the way higher education worked being under taken and reforming the funding formula was only part of that process. Establishing methods for measuring rigor and student learning outcomes was also an important part, but it did not need to necessarily be a part of this committee's work. He indicated there was a committee working to totally review tuition and fee policies to make sure they meet the goals of the state in getting students through to their degree, which was also part of the overall reform process. Chancellor Klaich would be happy to report to the committee on the overall package of higher education reforms that had been driven by the Board of Regents and he wanted to provide the committee the confidence that entire process was being examined, but not all of the detail had to necessarily be addressed in this forum.

In conclusion, Chairman Horsford said on page 6 (Exhibit A) it stated that the Board of Regents would continue to monitor tuition and fee levels for reasonableness, monitor non-resident tuition enrollments, and may consider policies related to the appropriate level of non-resident enrollments. One of the subcommittees he planned on forming would explore that as a driving factor as well as part of the issue on the weighted student credit hour, with looking at possible other funding sources particularly from local entities to the community colleges. Even though some have tried to hold the committee from only discussing the funding formula, he emphasized that the committee's charge was about the funding of higher education in every respect and he wanted to take on all of those aspects. Chairman Horsford acknowledged that the formula was a large piece of what the committee was trying to address, but thought there was a general recognition that there needed to be increased funding and support for higher education going forward.

Chancellor Klaich said he appreciated that approach.

V. DISCUSSION REGARDING THE PROVISIONS IN THE CONTRACT WITH COMMITTEE CONSULTANT SRI INTERNATIONAL RELATING TO STATES' BUDGETING PRACTICES PERTAINING TO STUDENT-DERIVED REVENUES (CONTRACT DELIVERABLE #1).

This agenda item was taken out of order.

Alex Haartz, Program Analyst, Fiscal Analysis Division directed the committee to page 45 of the meeting packet (Exhibit A), the contract between the Legislative Counsel Bureau and SRI International, the committee selected consultant. He said Item A under the Duties of SRI, was a description of the deliverable that SRI would be presenting to the committee in the next agenda item. The deliverable, “Reports on States’ Budgeting Practices Pertaining to Student-Derived Revenues” essentially contained four main components in which the committee had asked SRI for information. Mr. Haartz said the first and major part of the deliverable was to provide a report and analysis for each state detailing those state’s budgeting practices of student-derived revenues and whether those revenues were budgeted in conjunction with General Fund appropriation in other states or were they excluded from calculation of public funding. He noted that in Nevada the student-derived revenues consisted of student registration fees, non-resident tuition and miscellaneous student fee, which were commonly represented by application fees or other small types of revenues. Second, the contract required SRI to compare and contrast to Nevada’s current practice, which was not necessarily the funding formula, but the current practice of how the Legislature budgets student registration fees, non-resident tuition etc. as well as NSHE’s proposed alternative model. Mr. Haartz said the third component asked SRI to identify the strengths and weaknesses of each of the states’ practices, including Nevada’s, and to identify the incentives, whether they were desirable or had a perverse effect on the states’ budgeting practices. Fourth, SRI was also asked to comment on best practices and if there were lessons learned from other states. Mr. Haartz said that was the scope of the deliverable SRI submitted and it was included in the meeting packet (Exhibit A) on page 67. He directed the members to page 50 for an explanation of the committee’s role in accepting or rejecting the deliverable submitted by SRI. He pointed out Item VIII, Standard for Review of Reports, Subsection A, the committee after reviewing the deliverable was required under the contract to make one of the three following determinations:

- To determine if the deliverable met the contract specifications and to accept it outright.
- To determine if the deliverable essentially met the contract specifications, but required some minor revision or rework.
- To reject the deliverable outright by determining that it failed to meet the contract specifications in ways requiring major improvements.

Continuing on page 50 (Exhibit A), Mr. Haartz directed the members to Item VIII, Subsection C to the description of the timeframe and the process by which the Legislative Counsel Bureau was required to notify SRI of the committee’s decision if the deliverable required some level of rework along with the magnitude and type of required revision. The contract also noted the timeframes in which SRI had to respond with a revised product and how long the Legislative Counsel Bureau had for confirmation of final acceptance of the reworked deliverable. Mr. Haartz said the purpose for providing the members with this information was so everyone understood the process once SRI made their presentation.

Mrs. Gansert needed clarification that if the committee asked for a portion of the deliverable to be reworked it was because the specifications of the contract were not met versus it was not the outcome that was expected.

Mr. Haartz said that was correct and confirmed the rework was based on it there were significant missing portions of the contract deliverable.

VI. PRESENTATION AND DISCUSSION REGARDING STATES' BUDGETING PRACTICES PERTAINING TO STUDENT-DERIVED REVENUES (CONTRACT DELIVERABLE #1).

This agenda item was taken out of order.

Roland Stephen, Senior Economist and Christina Freyman, Science and Technology Policy Analyst, SRI International presented Deliverable #1 (page 67, Exhibit A) to the committee. Mr. Stephen said the first deliverable was part of what would be a much more substantial product presented to the committee at the June 2012 meeting. Mr. Stephen remarked that funding formulas or treatment of student-derived revenues or other aspects of the way higher education was supported should be driven by policy considerations so SRI would start in its final report with a broad evaluation of what the policy options were for Nevada and Nevada in the context of other states' actions and choices. He added that higher education generally in the United States was on the verge of a great amount of destructive change. It was driven by dollars, but it was also driven by technology and other aspects. Mr. Stephen said the alignment of higher education for societal purposes was under much scrutiny, as it should. The SRI deliverable spoke in detail to the questions of using a formula, but there were many kinds of formulas in the current system and for the actual budget processes of Nevada and other states the deliverable would be a point of departure for the large policy questions and that was an area he thought SRI would be most helpful to the committee. Mr. Stephen would talk a little bit about what was going on in Nevada, but would not spend much time on it. He said his team had spent a long time educating themselves on Nevada's higher education funding, but if they needed to amend any words or phrases in the deliverable they would be glad to make the corrections.

Continuing, Mr. Stephen said the presentation would cover information on other states' budgeting practices and other case studies, although they would not be providing great detail on the case studies. Ms. Freyman would talk about the case studies as they related to fundamental issues including what it meant, why did some states do it one way and not another and why had some states changed their practices. Mr. Stephen alluded to giving a framework for the members to think about how the student-derived revenues should be treated because there were policy questions, there were process question, there were fundamental questions of equity. He aspired to not give the members the answer, but to provide a way of approaching it to facilitate the committee's deliberations.

Using Exhibit B, Mr. Stephen explained there were two budgets (page 3), a state-supported budget and a self-supported budget. The state-supported budget consisted of General Funds, 100 percent of non-resident tuition and 60 to 70 percent of student fees. He noted there was no in-state tuition, but rather student fees. Within the current formula each campus had control over their own self-supported budget, which was comprised of the balance of student fees and other various sources of revenue. Mr. Stephen said the formula was made up of various pieces, although the formula was referred to as singular and one formula. He noted to go into more detail about the formula at the next committee meeting but pointed out that the Legislature had funded the formula at about 85 percent (page 5) or less of the number that was generated which was presented by the System to the Governor's Office in the fall of even-numbered years and it was reflected in the general budget proposal to the Legislature during the spring of the odd-numbered years. He said the formula was numbers from the System and then reviewed at every step through the budget process. Mr. Stephen stated the student-derived revenues were part of the budget process because even if a check to the bursar on a campus sat in a bank account on the campus in the state-supported account the Legislature took notice of that money and it was accounted for and authorized by the Legislature as part of its budget work. He said that student-derived revenues were the first dollar counted for each institution. Mr. Stephen also recognized that the explicit use of the funding formula was suspended for the 2011-2013 biennium. Page 6 reflected Nevada's state-supported budget revenue sources, but SRI's goal was not to provide commentary on the amount of money Nevada obtained by whatever means for the support of higher education. He said page 7 illustrated a general national pattern of the treatment of student-derived revenues. As General Fund appropriations declined in the last few years, states turned to tuition and registration to help compensate for the support of higher education. He concluded that this development would not be reversed; however, it might slow down, plateau, or return to growth in state support, but the roll of registration fee and tuition dollars in the support of public education was much greater than it had ever been and was going to stay very significant. Mr. Stephen explained that was why middle-class families reported that the cost of education had gone up. However, it was not that more was spent by a particular system of education, because those families did not see the tax dollars, rather they saw their registration fees or tuition fees increase. In Nevada, those fees were nominal and once they ceased being nominal, students and their families were more interested in how that money was being used and the transparency of the usage, which was emblematic of the pattern SRI observed in every state of the union. Mr. Stephen moved to pages 8 through 12, a stylized map of how all 50 states treated their student-derived revenues, which was a simple abstraction about existing states' practices. In most cases, institutions retained the revenues they generated and it seemed that was always how it had been done and many times it was not part of a legislative standard. It was common for institutions to charge fees and tuition and they got to keep it essentially controlling their own revenues. In other states, the institutions controlled their own revenues, but could not spend them without legislative approval, which was an accountability device. He explained that states saw any monies, whether it was a fee charged for entrance to a park or a fee charged to attend college as part of the states' overall resources and expected it to be subject to normal budgetary authorization or appropriation practices. Mr. Stephen said there were also many states where institutions took tuition and/or fees and deposited them in specific state sanctioned accounts lending itself to even more elaborate devices for accounting for the fees. Those states' institutions could either draw on those accounts as they wished or they could draw on that account only after the monies has been appropriated or authorized by the Legislature. He indicated in Nevada, institutions retained their revenues, but they were budgeted by the Legislature and that revenue offset General Fund dollars. The Legislature decided on what level or what percentage of the formula it was going to fund and then accounted for the student-derived revenues to use as a direct offset of general fund appropriation. He noted only three other states out of 50 utilized the same method and they were large states, but in California that practice was just used for the community college system, Texas was a hybrid and New York made recent changes. Mr. Stephen said that was the broad picture of the treatment of student-derived revenues elsewhere and Ms. Freyman would address those states later in the presentation.

In the case of Nevada, Chairman Horsford asked if both the out-of-state tuition, which was part of the formula, and fees were combined to offset the General Fund.

As he understood it, Mr. Stephen answered that was correct.

Chairman Horsford asked if it was known how much in out-of-state tuition and fees each institution generated and then was offset by General Fund. He wanted to get it on the record so there was public awareness of the inequities on the current formula. To his knowledge, UNLV generated a significant amount of out-of-state tuition, higher than any other institution, and because of their approach those dollars were offset by General Fund and UNLV perceived that to be part of the inequity in the current formula that should be rectified.

Mr. Stephen said Chairman Horsford was correct and the actual dollar figures had been made available by the Chancellor's office. He indicated SRI could easily compute the numbers using the institution by institution budgets and he would be happy to provide that information.

Chairman Horsford wanted that important information to be put into context to the deliverables for the committee's final report to the Legislature. He thought the Legislature needed to understand the elements that led to the committee's recommendations and conclusions.

Mr. Stephen indicated SRI would generate a table with the dollar figures. Referring to page 8 (Exhibit B), which showed all the states where the institutions retained their revenues, he said Nevada was categorized among those states because as a manner of accounting and bookkeeping it was true that the dollars did not leave the campuses. In a sense the Nevada institutions retained their dollars; however, the dollars were accounted for as part of the budgetary process. He pointed out on the map (page 8) that the overwhelmingly majority of states' public institutions retained their fee and student-derived revenues.

Page 9 (Exhibit B) showed the few states where institutions retained their revenues and the Legislature budgeted those revenues. Ms. Freyman explained that Colorado split up their tuition and historic tuition levels were appropriated through the Legislature, but any new tuition raised was controlled by the institutions. She commented that Texas also used this method.

Going back to page 7 (Exhibit B), Mr. Stephen directed the members to the right side of the chart, which illustrated the path when student-derived revenue was deposited with the state. He said either institutions had control over the student-derived revenue or it had to be budgeted by the Legislature, and in three cases that revenue was offset by General Funds. He said page 10 showed the states where the revenues were deposited with the state typically into specialized accounts managed by the state Treasurer or other relevant office. Illustrated on page 11 were states in which the student-derived revenues were deposited with the state, but controlled by the campus. Mr. Stephen explained there were different mechanisms among the states shown on page 11 where campuses kept their revenues, but through a regular process and possibly the monitoring of certain accounts, the campuses had to provide detail and were accountable on how they were utilizing those revenues. Those state also generated state funds separately for their public systems of higher education, except in the following four states (page 12): New York, Texas, the community college system in California and Nevada.

Ms. Freyman said SRI was asked to include in the Deliverable #1 information on states with recent changes; however, because of the short timeframe they used 2011 survey data to develop the report. Referring to page 13 (Exhibit B), Ms. Freyman indicated that in New York the Legislature and the Governor passed SUNY (referring to state campuses) and CUNY (referring to city campuses), which gave the campuses the power to raise $300 additional dollars annually for their tuition for five years. Their base tuition was still appropriated in the state budget; however, the extra tuition the campuses were authorized to raise stayed on the campus and controlled by the campus so it was a hybrid system. In addition, a Legislative Bill was passed which was effective in FY 2012 that prevented the Legislature from reducing the state appropriations in an amount equal to the amount of tuition raised. Ms. Freyman reported South Dakota as another state with a recent change. Their state system was small and established all of its higher education policy and funding collection, which was the only state utilizing this method. She said prior to 2002 the tuition revenue was turned over to the higher education system and not allocated back as earned, but rather given to each campus based on their budgeting. Since 2010, tuition revenue was allocated back to the campuses as earned less 20 percent, which went to the Higher Education Facilities Fund. In Idaho (page 14), Ms. Freyman explained a series of law changes took place from 2005 to 2010, which enabled the institutions to collect tuition where the funds were generally collected and deposited into a state designated account and the Legislature must appropriate the funds. Prior to 2005, an Idaho resident was only charged a "matriculation fee," but since 2010 all state institutions could charge tuition and fees to residents and non-residents. She said prior to FY 2011, in Colorado all tuition and fees were appropriated through the legislative process. However, in a five-year experiment from FY 2011 to FY 2016 fees remained appropriated from the Legislature, but the tuition revenues collected were under the authority of the institutional governing board.

Continuing, Ms. Freyman pointed out that many states had hybrid systems for funding higher education. She said SRI analyzed some case studies they thought would provide valuable knowledge and some examples of the types of systems that distributed versus integrated were shown starting on page 15 (Exhibit B). California was such a large state that it had three college and university systems with different practices at each stage. The current practice for the University of California system was for all non-resident tuition to remain at the source and was not state appropriated. However, the University of California Office of the President was advocating for campuses in that system to retain all revenues they generated. The California State University system had a different method where campuses retained student-derived revenues, but the funds were accounted for through an appropriation process. The California Community College system was funded through a variety of mechanisms including state general fund appropriations, local property taxes and legislative-set student fees, which were deposited with the state. She said the general fund appropriation was calculated by the following formula: state apportionment = target allocation – (property tax revenue) – (98% of fees) and explained the funding formula for the community colleges took into account what they would like to get, then the property tax revenue was subtracted from that amount and then 98 percent of the fees were subtracted to calculate the amount of the general fund appropriation.

Mrs. Gansert asked if the tuition for the student was the same within each tier of the California systems if that student attended, for example, the University of California at Berkeley versus the University of California at Chico versus the University of California at Irvine.

Mr. Stephen believed there were minor differences within each system, but not substantial differences in the fees. He also noted there were minor differences with some of the programs, architecture for example, may reflect differential tuition rate.

Ms. Freyman said Texas (page 16, Exhibit B), had a large number of institutions and their Legislature set a Statutory Tuition Rate, which was a rate charged at all schools. That tuition revenue rate and some of the student fees were transferred to the state treasury, appropriated through the budgeting process and offset general fund appropriations. Comparable to the Nevada system, Texas also had a process where an institution could get a student fee passed when it was designated for a certain purpose and it did not have to be authorized or budgeted through the Legislature. She indicated in Texas, only 25 percent of the student-derived revenues were appropriated through the budgeting process due to these direct student fees. In addition, each Texas institution, through its governing board, could increase the tuition over the Statutory Tuition Rate. Ms. Freyman said the institutions had a variable they could control because each could set higher tuition rates with the difference set aside for specific purposes and retained by the institutions. She explained that was the reason the 25 percent of student-derived revenues appropriated through the budgeting process was so low because the higher demand schools could charge more tuition and get to keep that revenue. Page 17 showed Tennessee as an example where fees were collected by the institution, deposited into the state treasury and credited to a special agency account. Tuition collected by the institutions was appropriated by the Legislature through a funding formula and the student-derived revenue did not offset general fund appropriation. Ms. Freyman said the last case study was New Mexico. Historically New Mexico's tuition and fees had been so low their institutions retained control and had the authority to keep tuition and fee revenues, spending them at their own initiative. The institutions did not have to transfer them to the state treasury, account for them through the state budgeting process and there was no evidence there were any explicit state-level restrictions or incentives to minimize increases. Ms. Freyman said one thing that was inadvertently left out of Deliverable #1 was information regarding NSHE's proposed model (page 18) which requested that all student-derived revenue including non-resident tuition and student fees be retained at the institution, which was an example of a distributed model. She said SRI would resubmit Deliverable #1 to include this information.

Mr. Stephen identified two categories (page 19, Exhibit B) "distributed" and "integrated" to designate systems of institutions. In the distributed system, there was a greater degree of financial autonomy because revenues were managed where they were collected and in the integrated system, there was much less financial autonomy because revenues were managed by the state Legislature. At present, Nevada was an integrated system and he used these two stylized categories as a way of thinking about it when various kinds of incentives were explored and questions were raised by studying different practices.

Mr. Aizley needed clarification that when Mr. Stephen referred to system autonomy if he meant that campuses had the autonomy, or that the state gave the money – in Nevada, to the Board of Regents – and they had the autonomy, or did the actual campuses have control.

Mr. Stephen said the distinction in Nevada was autonomy between the state government and the system or the campuses. He noted that typically state systems were not observed to intervene in distributional questions once the budgetary allocation was provided. In the California State system there was a certain amount of juggling of fees but in that case it reflected the autonomy of campuses where historically they collected the money, kept it and then used it in ways the campus deemed appropriate.

Chairman Horsford said Nevada fell in the portion between the distributed and integrated systems.

Mr. Stephen agreed because the monies stayed on campus and the campus was not told how to spend it, but the Legislature counted it as an offset. The current formula generated money based on the purposes to which there were going to be spent as decided by the Legislature, but in practice once the campus got the money they spent it how they wanted.

Chairman Horsford asked for clarification that Nevada was only one of four states using that method. Mr. Stephen said yes and the first dollar counted being the fee or tuition.

Continuing, Mr. Stephen's goal was to offer ideas for thinking about the evaluation of best practices (page 20, Exhibit B) and the way different practices might affect behavior and what were Nevada's policy purposes. He said critical questions included the following:

- How high a priority did Nevada set on access?
- How high a priority did Nevada set on alignment with economic development goals?
- How high a priority did Nevada set on performance?

Mr. Stephen indicated that they would look at fees and revenues and how their treatment could influence behavior. Nationally, SRI observed a rise in tuition and fees at all public higher educational institutions, including Nevada. That practice had obvious implications for access. In many states as tuition fees increased, a portion was set aside for scholarships or for need based financial aid. He remembered hearing the President of the University of Washington complain the institution's tuition was too low, which was surprising because he was the head of a major public research university. His point was he would rather charge more of the majority of his middle class customers as long as he took enough money out of that to ensure access to underserved, first generation groups. In his view, that would help another dimension which was sufficiency or the fundamental support of the system. In evaluating best practices, the implications for access, especially for underrepresented groups needed to be explored. In studying the impact on quality of any particular approach Mr. Stephen said to the extent that institutions relied more on a direct financial relationship with its customers, a system where the state paid, the students got it for free and the institution got the money anyway could lead to questions about quality. He observed that if there was more of a customer relationship it would incent quality. On efficiency, he asked if an increased reliance on tuition and fees would encourage new practices and greater efficiency, which evoked the question of the competitiveness of the market. He thought that a state would not want to replace a flow of general fund monies with tuition monies and give institutions control over it and imagine that it would make people instantly more energetic because it might just be more money. Mr. Stephen said accountability (page 21) was key, to determine if student-derived revenues were managed in a transparent way. SRI observed among many states a great deal of effort to ensure accountability. In his opinion, Nevada did well on accountability, even though it was complicated, the budget process took account of student-derived fees and tuition by various means and the non-state budget took the student fees that went into specific line items for capital improvements. He noted that the members of the Legislature were accountable to their constituents and bore a responsibility to them and at the same time the Board of Regents members were elected and accountable for setting tuition rates.

Mr. Stephen said Nevada would not want to lose sight of accountability even if other changes were made in how student-derived revenues were treated. Moving on to sufficiency (page 21), he asked if student revenues made an adequate contribution to the support of higher education. He indicated some people believed that because student-derived revenues in Nevada and other states were the first dollar counted it allowed the Legislature to spend less. Mr. Stephen thought you could not know one way or the other because the Legislature and the Governor working together on a budget had to consider many other large pots of money for Medicaid, Public Safety etc., which drove the bottom line number; therefore, whether student-derived revenues were included would not necessarily alter the overall level of support of higher education. He did however think it helped for clarity purposes to have the student-derived revenues separated for the accountability to students and their families. When the students paid a fee or tuition and it stayed on campus then the campus became responsible for how it would be spent and was accountable to explain that to the student. It could not be said that the money was part of the state budget and so the student should ask its state representative. Another category to think about was equity (page 21) and whether there was an appropriate balance between student and taxpayer contributions. Mr. Stephen thought it was appropriate that students and their families bore some of the cost of their higher education because they would obtain lifetime returns on that education. It was also appropriate that the state supported higher education because there were tremendous external benefits to society at large from having a higher educated workforce. It was all about balance, and Mr. Stephen said that the President of the University of Washington believed the balance was not right where the state was expected to pay for the University, a blue-chip public higher education institution, and the students were getting it too cheap for the personal benefit they derived from their higher education. He expressed that the concept of balance led back to the question of access. While there were a lifetime of returns on higher education, would paying the fee up front deter categories of possible students and he said the answer was certainly. Mr. Stephen said his conversations in Nevada indicated the state had a price sensitive student population so it would have an immediate impact on access. Nevada also had serious challenges of getting students out of K-12 into higher education, getting students to complete at a rate to keep the state competitive in the long term. He noted a tuition practice that sent a signal which deterred students, would be a problem.

For the basis of the whole discussion, Mrs. Smith thought it was very important for Mr. Stephen to remember that Nevada's students were not all in their 20's with a Mom and Dad writing a check for their education. She explained that many of Nevada's students had come to the Legislature to speak in the last few budgetary cycles and it was very clear that there were a wide range of ages in the state's student population. When a student and their family was referenced it could mean the student, a spouse and children. Mrs. Smith said at times it was a Mom and Dad paying, but it could be a single parent or it could be someone returning to school later in life, especially since Nevada's system spanned community colleges through universities. She relayed a story from a day during a previous legislative session about two young sisters on a serious college career path who testified they were struggling to pay for school. They had a Mom and Dad who provided support and encouragement, but unfortunately could not provide the financial means. Later that night, Mrs. Smith said she attended a banquet and the two sisters were working as servers to make money to pay for their education. She emphasized it was essential to recall who comprised Nevada's student population and who was paying for the education when discussing the basis for student-derived revenues.

Mr. Stephen thought that Mrs. Smith made an important point and it accounted for the price sensitivity and accountability to the students.

Mr. Stephen said no one would disagree. Nevada had a population that was both a challenge and an opportunity. The population included adults already in the workforce with some college who wanted to return to complete their degree or learn a new skill, but the education at any price would be hard them. He thought time, flexibility and models of delivery all needed to be addressed. Nevada, particularly Southern Nevada, was an outlier for having a large share of population of adults who did not complete their education, but if those adults were converted into graduates Nevada would make a large impact on its attainment numbers, which should be a goal of the state. How Nevada struck a balance between public support and the student contribution was critical.

Chairman Horsford knew that Mrs. Gansert and others were working through the National Governors Association and the Complete College Initiative to identify opportunities for Nevada residents who were close to completing their degrees, which would help improve the state rankings in that area.

Lastly, Mr. Stephen said alignment (page 21) of student revenues with the economic goals of the state should also be considered. Referring to a cost based system, he thought it was important to think about how some programs were valued more than others by the state of Nevada and some programs were valued more than other by students. He used nursing degrees as an example because there was evidence students were willing to pay more because they could get a job after obtaining their degree. He asked if there should be differential tuition rates for certain programs.

Moving to page 24 (Exhibit B), Mr. Stephen said most states gave a great deal of autonomy to campuses and what they did with their money. Furthermore, in most states either the system or a local boards of trustees set the tuition rates and for the course of discussion what is done with student-derived revenues interacted with the discussion of who set the rates and why and on what basis. He thought it was interesting that public education in many states had enjoyed a great deal of autonomy in both how much they charged and how they spend the money. He thought as the national pattern of having more private dollars going into public institutions increased, the practice of tuition setting was going to be scrutinized more and not less in the future.

Referring to page 24, Senator Kieckhefer asked what level of disparity was created between institutions within a state when 12 local district governing boards or individual institutions controlled their tuition levels.

Mr. Stephen said in some states where it was a local governing board setting the tuition there was quite a bit of disparity. He used the University of Virginia in Charlottesville and George Mason University as an example of two public institutions with a measurable difference to an in-state student. A great deal of time, money and effort had been spent by the University of Virginia at Charlottesville on access because it was expensive to attend and because they are on a path to becoming what is called a public-private institution. The state dollars represented about 17 to 18 cents on a dollar within their budget and that led to a higher price. The University accepted that responsibility by making a provision on the access side with in-state support and financial aid.

Senator Kieckhefer said there was indication from NSHE that the Board of Regents would continue to monitor the policies related to the number of out-of-state students. He wondered what other states' policies were in relation to out-of-state students, and whether there was a standard practice, threshold, or percentage that would be an appropriate level of non-Nevada students attending the states' colleges and universities. It seemed that creation of a mechanism for institutions to retain the full amount of those tuition dollars created a strong incentive to recruit out-of-state students. Senator Kieckhefer personally believed it was positive for Nevada institutions to bring people who had been educated in other states to study in Nevada. He thought a certain percentage would stay in the state and become well-educated members of the community.

Mr. Stephen said it varied from state to state and SRI would be happy to provide the data. He agreed with Senator Kieckhefer's points and said limiting the number of out-of-state students could be beneficial in some cases, but it could also create tension at the institution. The University of North Carolina, Chapel Hill had a numerical limit, a cap on out-of-state students and the argument from the Chancellor of that institution was that those students paid full-price or more for tuition, it improved the quality of the institution to have those students enrolled, and many of them stayed in North Carolina; therefore it was a net benefit to the state. However, if the institution took more out-of-state students, it meant that fewer in-state students were admitted, but that was the trade-off and it sometimes created tension among leadership. Mr. Stephen said it became a policy question, because out-of-state students were an obvious benefit yet the crowding out of in-state students factored into the decision of the numerical cap. He thought if the institution grew at the same time then that issue would be alleviated to a certain extent.

Chairman Horsford added there was good analysis that out-of-state students had a significant impact on campus and the surrounding regional economy. He said there needed to be a balance of the out-of-state and in-state students.

Assuming the committee moved forward with some type of performance funding, Mr. Dillon was concerned with the definition of a completed course in the proposed NSHE funding formula model. He said Nevada was nearly at the bottom of every national educational ranking for such things as graduation rates and retention rates and thought there should be something done to incentivize schools to move the state higher in those standings. He wondered if there were some national benchmarks for completion of a course, and also the link between research funding and upper division courses. Mr. Dillon expressed concern about the assumptions in the formula regarding O&M and thought it was too simplistic of an approach considering some of the aging buildings on some of the campuses.

Chairman Horsford said the subcommittees would follow up on those specific areas that committee members identified in the NSHE proposal and SRI would continue to review them in the completion of its deliverables.

Mr. Stephen said SRI would speak to the member's particular questions in their subsequent two deliverables.

Chairman Horsford asked for a motion regarding the committee's acceptance, acceptance with rework or rejection of Sari's Deliverable #1. He thanked SRI for completing Deliverable #1 on time and on a tight timeframe, which he knew was difficult based on the procurement process. Chairman Horsford said it was the committee's understanding that the deliverable generally met the requirements of the contract; however, there were two minor changes. First, the committee needed SRI to include NSHE's alternative proposal in the written document, and second the terms appropriation and authorization were used throughout the document, but Nevada used the terms state support or appropriated so those would need to be changed. Based on recommendation from staff those were the changes in the deliverable requested to made be by SRI. Chairman Horsford recommended that the committee accept Deliverable #1 with rework.

> ASSEMBLYWOMAN SMITH MOVED TO ACCEPT SRI INTERNATIONAL'S DELIVERABLE #1, WITH REWORK AND REQUIRED SRI TO REVISE DELIVERABLE #1 TO INCLUDE THE NSHE ALTERNATIVE FUNDING MODEL, CORRECT AND ADJUST THE USE OF THE TERMS APPROPRIATION AND AUTHORIZATION TO READ STATE SUPPORT OR APPROPRIATED AND CLARIFY THAT NSHE INSTITUTIONS CURRENTLY RETAINED THE DIRECT STUDENT FEE REVENUE.
>
> SENATOR PARKS SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

IV. DISCUSSION OF THE USE OF SUBCOMMITTEES TO ASSIST THE COMMITTEE IN CONDUCTING THE STUDY.

This agenda item was taken out of order.

Chairman Horsford recommended the formation of two subcommittees. He indicated the subcommittee membership would include a distributed mixture of the committee members from the Legislative and Executive branches, Board of Regents and the private sector as well as reflective of the north and south. He said everyone would get an assignment, but he was reserving the announcement of who would be on which subcommittee because he had not had a chance to talk to each committee member individually. Chairman Horsford relayed the first subcommittee would further explore the funding formula issues, the alignment of economic development and workforce development, and quality and integrity of the outputs for assurance there was not grade inflation. He also wanted specific discussion regarding disadvantaged and low-income students, further clarification on how the NSHE proposal did not include remedial education, the definition of a completed course and the weighted student credit hour. The second subcommittee would specifically explore ways of funding community colleges through local support possibly through county resources, voter approved bond initiatives for capital, or approaches other states or community colleges had used including identification of any institutional governance issues that could be addressed based on the recommendation of particular revenue sources. He wanted the subcommittees to work on all of those topics with LCB staff, NSHE and SRI in order to propose recommendations to the full committee.

Chairman Horsford entertained a motion for formation of the two subcommittees. He pointed out the meetings would all be public and include a properly noticed agenda, as per the open meeting law.

> ASSEMBLYMAN AIZLEY MOVED TO APPROVE FORMATION OF THE TWO SUBCOMMITTEES.
>
> SENATOR KIECKHEFER SECONDED THE MOTION. THE MOTION PASSED UNANIMOUSLY.

VII. PUBLIC COMMENT.

There was no further public comment.

VIII. ADJOURNMENT.

Chairman Horsford thanked the committee members, LCB staff, SRI, and the Chancellor and his staff. There was no further business to come before the committee so Chairman Horsford adjourned the meeting at 11:39 a.m.

Respectfully submitted,

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Patti Sullivan, Committee Secretary

APPROVED:

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Steven A. 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.