

**MINUTES OF THE
COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION'S
PERFORMANCE POOL, ECONOMIC AND WORKFORCE DEVELOPMENT AND
RESEARCH SUBCOMMITTEE
(Senate Bill 374 of the 2011 Legislative Session)
August 15, 2012**

The Committee to Study the Funding of Higher Education's Performance Pool, Economic and Workforce Development and Research Subcommittee (Senate Bill 374 of the 2011 Legislative Session) held its third meeting of the 2011-12 Interim on August 15, 2012, in room 4412, Grant Sawyer State Office Building, Las Vegas, Nevada. The meeting was videoconferenced to room 2135, Legislative Building, 401 South Carson Street, Carson City, Nevada and room 118, Greenhaw Technical Arts Building, Great Basin College, 1500 College Parkway, Elko, Nevada.

COMMITTEE MEMBERS PRESENT IN LAS VEGAS:

Assemblyman Paul Aizley, Chairman
Spencer Stewart

COMMITTEE MEMBERS PRESENT IN CARSON CITY:

Senator Ben Kieckhefer
Mike Dillon
Jason Geddes
Steve Hill

COMMITTEE MEMBERS PRESENT BY TELECONFERENCE:

Gregory Mosier

COMMITTEE MEMBERS PRESENT IN ELKO:

None

COMMITTEE MEMBERS ABSENT:

None

STAFF MEMBERS PRESENT IN LAS VEGAS:

Alex Haartz, Program Analyst, Fiscal Analysis Division

STAFF MEMBERS PRESENT IN CARSON CITY:

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

EXHIBITS:

[Exhibit A](#) – Agenda

[Exhibit B](#) – Work Session Document

[Exhibit C](#) – NSHE's August 10, 2012, Response to LCB Questions from the July 23, 2012, Meeting

[Exhibit D](#) – NSHE's Proposed Base Budget Formula Model for DRI

[Exhibit E](#) – National Governors Association Letter to Senator Horsford

I. ROLL CALL.

Chairman Aizley called the meeting of the Committee to Study the Funding of Higher Education's Performance Pool, Economic and Workforce Development and Research Subcommittee to order at 2:18 p.m. and the secretary called roll. All the members were present at the meeting, with attendance in Las Vegas, Carson City and by teleconference.

II. PUBLIC COMMENT.

Dr. Charles Milne, Chair of the Faculty Senate, College of Southern Nevada (CSN) provided the following testimony:

I want to thank the committee for striving to put together a fair and equitable funding formula for Nevada's colleges and universities. The performance component is still under construction, and I want to address this item. First, I support seeking new funds to provide incentives for improving student success and not carving out portions of the allotment that NSHE institutions need to operate and having them compete for those funds. The argument that those funds can be eliminated in the future applies to any funds the committee imagines for the performance pool.

Second, I want to address the data used to arrive at the NSHE Performance Pool Model on page 5 of version 20. This data is important because it is used to determine the allotment for each institution from the performance pool. My question is whether all this data is accurate and were the same definitions and rigor applied to obtain these numbers from each institution? This applies especially to the transfer students, at risk graduate, and gateway course completers. If there is doubt in the data, the allotments are suspect. I recommend standardizing the definitions and collection of this data in a new year before its use in allotting funds from the performance pool.

Separating the bachelor's degrees and funding them at a small percentage hurts all the community colleges compared to TMCC. The bachelor's degrees could be grouped with the associate degrees without rendering them of little value. The efficiency percentages are also small, and therefore have little impact in the overall result. Increasing efficiency will not have a significant impact on the overall funding.

III. DISCUSSION ON PROPOSED RECOMMENDATIONS TO THE COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION REGARDING FUNDING OF THE NEVADA SYSTEM OF HIGHER EDUCATION'S PERFORMANCE POOL, ECONOMIC AND WORKFORCE DEVELOPMENT, AND RESEARCH.

Chairman Aizley asked for a motion to recommend changing the funding formula for certain areas in higher education. He suggested the motion should request that NSHE implement a system of performance funding for all areas that do not have the non-formula budget designation, which include the following:

System Administration
University Press
Special Projects
System Computing Services
WICHE
Intercollegiate Athletics at UNR and UNLV
Statewide Programs at UNR and UNLV
Cooperative Extension
Agriculture Experiment Station
Business Center North
Business Center South
School of Medicine
State Health Lab
Law School
Dental School
Perkins Loans

Senator Ben Kieckhefer said some of the areas mentioned were incorporated or changed during the 2011 Legislative Session. For example, Intercollegiate Athletics was built into the overall administrative account. He did not know whether that could be identified as non-formula accounts.

Dr. Jason Geddes said that he understood the intent of the suggested motion, but he was not sure performance funding could be implemented in all areas. For example, he did not know how performance could be measured for WICHE or Perkins Loans.

Chairman Aizley clarified that those accounts were non-performance pool accounts that were not being considered for the performance funding.

Dr. Geddes offered to make such a motion.

Alex Haartz, Program Analyst, Fiscal Analysis Division, said the motion could best be summed up that, to be eligible for performance funding, the programs or activities would have to be part of the overall funding formula. He said some examples of activities or efforts in a non-formula budget would be the three professional schools.

In response to a question from Senator Kieckhefer, Mr. Haartz confirmed that research at the medical school would not be eligible for performance funding. Senator Kieckhefer said that he would not support that.

Dr. Geddes rescinded his offer to put forth a motion.

Chairman Aizley pointed out that the Subcommittee was spending its time studying a shift from enrollment funding to performance funding, but there has never been a motion to indicate that was the intent of the Subcommittee.

Senator Kieckhefer said he would move to recommend a policy shift to a performance based funding component within the higher education funding.

SENATOR KIECKHEFER MOVED THAT THE SUBCOMMITTEE RECOMMEND TO THE COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION THAT A PERFORMANCE POOL FUNDING METHOD BE IMPLEMENTED FOR THE NEVADA SYSTEM OF HIGHER EDUCATION IN A MANNER THAT IS ADOPTED BY THE FULL COMMITTEE.

THE MOTION WAS SECONDED BY DR. GEDDES.

THE MOTION CARRIED UNANIMOUSLY.

Chairman Aizley asked Mr. Haartz to lead the Subcommittee through the major issues of the work session document ([Exhibit B](#)).

Mr. Haartz said the first major performance pool policy issue for consideration and possible recommendation to the Committee to Study the Funding of Higher Education addressed the question of the source of General Fund appropriations for performance funding. Mr. Haartz said there has been discussion in the full Committee and the Subcommittee as to whether performance funding should be made available as new money, or whether it should be taken from the base appropriation, which was the existing funding for the Nevada System of Higher Education (NSHE).

Mr. Haartz said that NSHE originally proposed new funding to support a performance pool. Testimony was received by both the National Governors Association (NGA) and the Office of the Governor that any funding for performance pool was best funded out of the existing appropriation provided by the Legislature. As the Subcommittee was aware, the proposal submitted by NSHE was flat, inasmuch as that it was based on the \$362.56 million allocated to the seven teaching institutions. If the intent was to not fund the performance pool through new appropriations, it would be funded by that allocation.

Mr. Haartz said the NGA and SRI have also recommended that a certain amount of significance be applied to either the percentage or the amount. He suggested it may be helpful to the Subcommittee members in recommending the percentage of the performance pool to keep in mind, that the funding would be taken from the base funding versus new money. Mr. Haartz noted the list was not meant to be exclusive.

Mr. Haartz said there were several options available to the Subcommittee, including the following:

- a. Adopt the approach recommended by NSHE in which funding for institutions' performance is funded with new General Fund appropriations rather than from the institutions' base appropriations.
- b. Adopt the approach recommended by the Governor's Office and the NGA that performance funding be funded from the NSHE institutions' base General Fund appropriations.
- c. Adopt a recommendation that performance should be primarily funded from the existing base appropriation, but also recommend that a percentage of any new General Fund appropriation the 2013 Legislature may approve for the NSHE institutions be used to fund performance. If the Subcommittee adopts this recommendation it may want to indicate the recommended percentages as guidance to the 2013 Legislature.

Chairman Aizley noted that the Subcommittee was not recommending specific dollar amounts for the performance pool. In addition, he said the Subcommittee was making a recommendation for consideration by the full Committee. He clarified that the three options were to use the base, new General Funds, or a combination of the two.

Mr. Haartz said that there has been no discussion of other revenue sources to fund the performance pool.

Senator Kieckhefer said it would be nice to put new money into many areas, but neither the Governor's Office nor the Legislature can be limited as to its budget decisions. He preferred the second option, which was that the performance funding be funded from the NSHE institutions' base General Fund appropriations.

SENATOR KIECKHEFER MOVED THAT THE SUBCOMMITTEE ADOPT
RECOMMENDATION B.

THE MOTION WAS SECONDED BY MR. HILL.

Dr. Geddes said he would support the motion, depending on what was decided on the percentage or dollar amount of funds to be allocated to performance. He explained that an immediate implementation would be difficult for NSHE, but he would support a phased-in over a couple of years.

THE MOTION CARRIED WITH OPPOSITION FROM DR. GEDDES.

Chairman Aizley said the next item for consideration by the Subcommittee was how to implement the performance funding.

Mr. Haartz noted that items 2 and 3 of the work session document ([Exhibit B](#)) were linked. It was recommended that the Subcommittee either consider them jointly, or discuss the issue of implementation before making a recommendation with regard to either the percentage or dollar amount to be allocated to performance funding.

Mr. Haartz said the Subcommittee was aware that there has been a recommendation that performance funding be phased in. The NGA was particularly supportive of a phase-in implementation, in that it provided institutions time to plan and make necessary adjustments, from a programmatic and administrative standpoint, as well as from a data systems standpoint.

Mr. Haartz said another related issue the Subcommittee may wish to consider in terms of the implementation as recommended by the NGA was stop loss. He explained that stop loss was a mechanism by which the amount of money an institution could lose in the performance pool was mitigated in a managed way. There was a control mechanism by which an institution's dollars decreased on a planned schedule, versus "hold harmless," which would prevent an institution from losing any new money. He said the hold harmless method was essentially predicated on new money, unless all institutions were held harmless, so no dollars would flow across the system based upon either performance or the count of weighted student credit hours.

Chairman Aizley asked for a discussion on the percentage issue in item 2.

Mr. Haartz said the Subcommittee was aware that there has been discussion and testimony presented that indicates performance funding was most successful when the amount of the pool was significant. He said there was a range of percentages used by states for performance funding, from single digits up to 100 percent. The NGA suggests a low double-digit number appeared to be appropriate percentage in terms of carving funding from the base appropriation. The Governor's Office has indicated its support to use a low double-digit number as well.

Mr. Haartz said that SRI has provided testimony to the Subcommittee that indicates, while there was no national standard or best practice at this time due to the relative newness of performance funding, it recommended the amount be significant to make it worth an institution's effort to participate and attempt to improve its performance. He noted the table on page 3 of the work session document ([Exhibit B](#)) displayed various

levels of funding, and the dollar amount that would be carved out of the base for each institution at various percentage levels.

Mr. Hill noted that the first policy consideration on page 4 of the work session document ([Exhibit B](#)) referenced a start date of FY 2015. He asked if that date had been discussed by the Committee.

Mr. Haartz said the FY 2015 start date was used as an example, and there were also some pragmatic purposes. He said NSHE would need lead time for planning and implementation. From a practical standpoint, it may be a necessity to implement a system of performance funding effective in FY 2015, but it may be able to be implemented effective FY 2014.

Dr. Geddes commented that a FY 2015 start date would allow time to gather data, such as whether “F” grades would be included. He said a phase-in over FY 2015, FY 2016 and FY 2017 of 5 percent each fiscal year would be preferred.

Ms. Heidi Gansert, Governor Sandoval’s Chief of Staff, said NGA preferred a stop loss to a hold harmless, if either were necessary. In addition, she noted the NGA’s suggested percentage for performance funding was for a minimum of low double-digits. She said SRI and the consultant from UNLV agreed with that. She said the Governor’s Office agreed with the phase-in approach. The timeframe has not been discussed, but she would prefer sooner versus later, perhaps 2013.

Chairman Aizley asked for comments about the negative effects of not starting with a double-digit percentage.

Senator Kieckhefer said he envisioned the implementation in FY 2014. Perhaps from a base-line data collection concept, the start date would need to be FY 2015 to make sure we are collecting the data to use to judge against performance for funding purposes. In terms of the percentage, he was inclined to be more aggressive, and would rather see an implementation of 10 percent, 15 percent and 20 percent if there was a three-year implementation phase-in. He said a four-year implementation may be possible. He added that it was worthwhile to get it rolling if we think it would incentivize behavior.

Dr. Geddes said that if the Legislature does not approve a budget for NSHE until June 2013, to be able to implement in July 2013 would be nearly impossible. An implementation date of July 2014 would allow time to digest the new policy.

Mr. Mike Dillon asked which institutions were grouped together in each performance pool.

Mr. Haartz referred to page 11 of NSHE’s August 10, 2012, Response to LCB Questions from the July 23, 2012, Meeting, ([Exhibit C](#)) which showed a three-tiered model. Mr. Haartz said the two universities would be on one tier. Nevada State College (NSC) was the single institution in the middle tier. He noted the table on page 3 of the

work session document ([Exhibit B](#)), showed that NSC was allocated \$9.11 million in General Funds in each year of the current biennium. The other four institutions, which represent the community college tier, were CSN, Great Basin College (GCB), Truckee Meadows Community College (TMCC), and Western Nevada College (WNC).

Mr. Dillon asked why there was a separate tier for NSC. Mr. Haartz explained that NSC had a different mission; it was not considered a research university, nor was it considered a community college. As the sole institution of its type in the state, it was placed in its own tier, as proposed by NSHE. He noted that the Subcommittee may recommend that it be included in another tier.

Mr. Dillon noted that DRI was not included in the first tier. Mr. Haartz said NSHE proposed that DRI not be included in any of the tiers. That point of discussion was still under consideration and evolving. He said the Subcommittee members have been provided with a proposal from DRI and the Chancellor's Office that was considered by the Funding of Higher Education's Funding Formula Subcommittee at its meeting on August 15, 2012. He noted that the Chancellor's Office was in attendance to address specific questions with regard to the rationale for not including DRI in the overall performance pool.

Mr. Dillon requested to hear from the Chancellor's Office on that question. In addition, he recalled that at the Subcommittee's July 23, 2012, meeting, there was a discussion about national benchmarks. He asked if there was any feedback available on that topic.

Mr. Haartz said in the response to the Subcommittee's questions, NSHE addressed the use of national benchmarks. He said a letter from Travis Reindl of the NGA on the topic of national benchmarks was provided to the Subcommittee members ([Exhibit E](#)). He noted that Crystal Abba, Vice Chancellor for Academic & Student Affairs, NSHE, was in attendance and may want to address that particular question.

Dan Klaich, Chancellor, NSHE, said he would address the first part of Mr. Dillon's question regarding DRI. Chancellor Klaich noted that Dr. Stephen G. Wells, President of DRI, was in attendance and could testify if the Subcommittee requested. Chancellor Klaich said that the state currently provided DRI with two kinds of funding: 1. Operation and maintenance for facilities at DRI, and 2. Administrative funding for a very limited number of individuals at DRI. The recommendation from NSHE was for the operation and maintenance funding to remain unchanged. For administrative support, NSHE suggested that it be measured and increased or decreased as the research grants generated by the institution increased or decreased. As the institute grows with greater research grants, the burden of federal reporting, and other regulations would increase as well. He said the model that was provided to Subcommittee staff and SRI was provisionally endorsed by the Funding of Higher Education's Funding Formula Subcommittee at its meeting on August 15, 2012, as a revenue neutral model. Chancellor Klaich said the current level of support was matched to the level of research generated from DRI. He said this was a method of performance funding, because if DRI got more grants, the institute would grow, and the state would assist to support that

growth. He said there were discussions with DRI as to whether that grant activity should also be within a performance pool. Ultimately, it was decided that would be essentially requesting the state to fund DRI for performance twice on the same metric.

Chancellor Klaich said the recommendation was for the DRI buildings to continue to be maintained by the state, but as DRI grows and attracts greater research grants, which are leveraged into the system on a multiplier of about 4.8:1, that they receive a slightly higher amount of administrative support, rather than returning to the Legislature every two years to request individual positions.

Crystal Abba, Vice Chancellor for Academic & Student Affairs, NSHE, referred to page 7 of NSHE's August 10, 2012, Response to LCB Questions from the July 23, 2012, Meeting, ([Exhibit C](#)) the response to Question 6 addressed the issue of national benchmarks. The challenge of national benchmarks was whether there was an appropriate national benchmark for the defined outcome included in any respective pool. More importantly, that metric should be for the same year that was being measured. The specific example in the response uses graduate rates. Should graduation rates be included as a metric, the challenge was that the most recent national benchmark from the Integrated Postsecondary Education Data System (IPEDS) was two years old. The challenge with the IPEDS definition was that it represented a very narrow subset of students. In addition, in the outcomes included in version 19 and version 20, many of the figures were taken from IPEDS; for example, the number of associate's, bachelor's, master's, and doctoral degrees. She said that IPEDS could provide an overall number, but it would not provide a national average based on institution type, which would be an appropriate metric. The challenge was in finding a national comparison metric that was available for the same year.

Mr. Dillon said that it was extremely important to include DRI as part of the proposal for performance funding. He said that everything that we do seems to be measureable. He hoped there was some solution to be able to compare our institutions to others across the country to show whether there was improvement.

Dr. Mosier expressed concern that the data for national benchmarks was hard to track and might be outdated by one year. He said IPEDS was in the process of updating those formulas to calculate graduation rates for national benchmarking. He stated that there were no nationally recognized measures of quality, and metrics for licensing and passing rates had shortcomings. He was concerned that the performance pool would include fuzzy qualitative measures for which we have no guidelines.

Chairman Aizley asked Dr. Mosier if he had a recommendation. Dr. Mosier prefaced his recommendation by noting that he was a non-voting member. He suggested that some form of national benchmarking should be included the performance metric.

Mr. Haartz clarified that while Dr. Mosier was a non-voting member on the full Committee, he was a voting member on the Subcommittee.

Mr. Hill understood that NSHE was comfortable with a performance pool funding level of up to 15 percent of the base. He was leaning in the direction of a higher percentage to be phased in over a longer timeframe. Referring to the table on page 6 ([Exhibit C](#)), he did not think the dollar amounts changed much overall.

Responding to Mr. Hill's question, Chancellor Klaich said his office, along with the presidents of the system's institutions, consider a 15 percent of the base to be a pretty big chunk, particularly since it would be the initial implementation of the performance pool. He said those with experience in this area considered 25 percent to be a very large amount. He felt that, since we were moving into the area for the first time and putting a significant amount of the institutional budgets at risk, 15 percent was a good amount. In addition, Chancellor Klaich said it was not clear whether the performance pool had an "upside" benefit for the institutions. For there to be an upside, there would have to be an appropriation from the Legislature or recommendation of the Governor. If the performance pool was funded by a carve out of the base budget, the institutions would be working to maintain their current budgets. That was another reason NSHE believed the 15 percent at-risk figure would present a significant motivation to perform.

Chairman Aizley asked Chancellor Klaich whether a 15 percent carve out would be implemented in 5 percent increments over three years. Chancellor Klaich responded that he hoped that it would be phased in over a period of time. He said, with a reasonable start date, data could be gathered to make sure the measures were consistent from the start.

Mr. Hill asked if there was a comparative upside for the use of performance pool funding for the institutions, so that higher performance would lead to higher funding for the individual institutions, even though NSHE was not receiving more funding.

Chancellor Klaich said he hoped that there would be an upside. He said his office was trying to set some clear metrics for which the state and the Board of Regents would set the expectations of the institutions. Presumably, it might also be a platform for requesting additional investment in higher education.

Chancellor Klaich asked Dr. Mosier for clarification on what he had referred to as "fuzzy" qualitative measures. Dr. Mosier, referring to Question 7 on page 8 of the NSHE response ([Exhibit C](#)), explained that there are no nationally recognized qualitative measures. He said NSHE indicated that licensure pass rates were not available in a timely manner to be used in the performance pool. He said, at this time, the Collegiate Learning Assessment (CLA) was merely a recommendation of a working group, and it has not been given further consideration by other institutions. He said the Voluntary System of Accountability (VSA) has not developed a formal mechanism to assess student learning outcomes over time. Those were all examples of not having anything concrete relative to qualitative metrics.

Chancellor Klaich said his response to Question 7 intended to convey that NSHE takes quality and assessment very seriously, and that NSHE was pursuing multiple avenues to measure that. He said it was true that NSHE had not made final recommendations, but that should not be interpreted that no work has been done, or that it was not a concern. He was sure that the faculty from any one of the NSHE institutions could testify as to what they are doing to assure assessment. He put together a group of faculty from every institution in the system to make specific recommendations for assuring quality and proper assessment, which was inherent in the institution's accreditation, and everything we do. He added that the system does not have any interest in mediocre graduates.

Dr. Mosier acknowledged the Chancellor's comments on quality assurance, and added that was part of the accreditation standards in his own college. He did not want to use an undefined qualitative measure without considering national benchmarks to compare how we stand competitively with the rest of the country.

Chairman Aizley asked the Subcommittee members to focus on items 2 and 3 of the work session document. He said one thing was clear – nobody wanted to carve out dollars, rather they wanted to use percentages. He said the carve out that was referred to most frequently was 15 percent phased in over a three-year period, starting in FY 2014 or FY 2015. He asked the Subcommittee members if they wished to make a recommendation, or delay the decision to a later time.

SENATOR KIECKHEFER MOVED TO RECOMMEND A FOUR-YEAR IMPLEMENTATION PHASE-IN OF THE PERFORMANCE POOL CARVE OUT STARTING IN FY 2015, WITH AN INCREASE OF 5 PERCENT EACH YEAR FOR A TOTAL OF 20 PERCENT BY 2018.

THE MOTION WAS SECONDED BY MR. HILL.

Dr. Geddes said he would be more comfortable with a 15 percent carve out starting at 5 percent in 2015, with increases of 5 percent per year. This would allow the 2015 and 2017 Legislatures to review the performance pool and decide if it wanted a higher percentage. He did not think that would affect the timeline in Mr. Kieckhefer's motion.

Senator Kieckhefer asked Dr. Geddes whether he would prefer a three-year implementation at 5 percent rather than a four-year implementation at 5 percent and Dr. Geddes agreed that was correct. Senator Kieckhefer indicated he would like to go forward with his original motion.

THE MOTION CARRIED WITH OPPOSITION FROM DR. GEDDES AND DR. MOSIER.

Mr. Haartz said the next item for the Subcommittee's consideration was item 4 regarding the structure and operation of the performance funding pool. He said three independent tiers were proposed (page 4, [Exhibit B](#)). Within each tier, the assigned

institutions would compete against each other, with the exception of NSC, which was the sole institution in its tier. For the proposed NSC tier, the performance of the college would be measured on a year-over-year progress improvement basis. The Chancellor's Office and the Governor's Office have indicated that funding would be withheld if performance did not occur by NSC on any one of the metrics. The NGA recommends that year-over-year improvement be rewarded. That was not included in the NSHE and Governor's Office proposals. The Subcommittee may wish to consider adding that kind of functionality to the performance pool.

Mr. Haartz noted that the Subcommittee has recommended a FY 2015 implementation. He said the Subcommittee members may wish to refer to version 20 of the performance model on page 11 of NSHE's response ([Exhibit C](#)).

Mr. Haartz said the Subcommittee has various options for recommending the structure and operation of a performance funding pool, including the following:

- a. Adopt the proposed three-tiered structure and points system proposed by the Governor's Office and the Chancellor's Office based upon the clarifications provided. If the Subcommittee adopts this recommendation, the Subcommittee may wish to add a year-over-year progress component.
- b. Recommend a different tier structure, such as two tiers, and/or a different point system approach. If the Subcommittee adopts this option, it will want to indicate the number of tiers, the assignment of institutions to tiers, the performance (comparative and/or year-over-year) to be incentivized, the weighting and point system, and the timeframe for implementation.
- c. Adopt a recommendation that performance funding not be implement at this time, until further metrics, such as national benchmarks, are clarified, perhaps by the 2013 Legislature.

Dr. Geddes said he would suggest option C. He pointed out there were still unknowns such as the workforce recognized certificates in the community colleges, and stackable certificates at the universities. He thought the weight for efficiency, or awards per 100 FTE, should be higher than 10 percent and less that the total amount for certificates. He noted the effort was moving away from getting students in, to getting students out efficiently. He thought that the model needed further refinement, and he would like to see some of those changes added.

Senator Kieckhefer said while he was incredibly hesitant to put this off, he thought that Dr. Geddes had some very valid points. However, he said those comments fit better into item 5 of the work session document that addressed metrics or measures of performance and associated weights/measures.

Senator Kieckhefer said he was concerned about NSC being in its own tier. If NSC was only required to meet the previous year's benchmarks, then they would only need to "tread water" for funding to remain level. He said that we need to devise a way to incentivize improvement for them. While he was not convinced that this was a final product with which the Subcommittee could move forward at this point, he thought the metrics and incorporating a national benchmark would be addressed in the discussion of item 5.

Chairman Aizley asked, if NSC was in a tier by itself, why do we prefer to have competitive tiers for the other institutions? He wondered if each campus should be treated the same way. He said having the campuses compete against each other had some positive aspects, but it would be better to have them work together. He preferred cooperation to competition.

Chairman Aizley revisited his opening comments. He did not intend for his comments to be contentious. An important issue was raised as to whether the performance in the non-formula budget areas should be used to produce dollars in the formula budget areas. He wondered whether there were faculty in the dental and medical schools that get research dollars on their own, or in conjunction with departments in other areas. He said, if the research was done entirely by faculty in the medical school or dental school, why should that be a perk for other units. That aspect bothered him, and he felt it should be discussed further.

Senator Kieckhefer disagreed. He said the purpose was to incentivize campuses to achieve excellence. Just because we do not fund the instruction based on the formula within those areas does not mean we should not recognize the excellence they achieve in research.

Dr. Geddes added that, although the professional schools were funded in a separate line item in the state General Fund appropriation, the schools were integral to the campuses that they sit on. For example, the dental school was supported by environmental health and safety, the grants and research office, and the campus recycling program. He said the professional schools were accessing the same services and programs that supported every other department on campus. They are not standalone colleges, and they require that base support to make sure the researchers have the tools they need to be entrepreneurial and get more grants. He said the professional schools should definitely be included. If they were receiving more grants, it should be reflected in the performance pool going forward.

Chancellor Klaich said some of the difficulty was that NSHE has submitted a formula to the Subcommittee that has two fundamental components: a base component and a performance component. This Subcommittee was charged with looking at the performance component. He said the discussions began with the premise that some line items were out of the base component, and were not formula items. He did not hear any disagreement with that concept.

Chancellor Klaich asked the Subcommittee members to keep in mind that the performance pool was tied to the missions of the institutions. In this case, the mission was research, and the source of the research was irrelevant. He said another very difficult issue brought up by Dr. Geddes was the integration of the whole research fabric of the university into the other portion of the university. He said, whether the research was supported by the Provost's Office or Office of Sponsored Projects, it was difficult to excise it. He liked Chairman Aizley's comment about collaboration, and noted that was a focus of the Board of Regents. He said we want to encourage collaboration among the professional schools and the faculty in general. He explained that Consolidated Omnibus Budget Reconciliation Act (COBRA) grants and Individuals with Disabilities Education Act (IDEA) grants were built on tearing down silos within the institutions, and having faculty participation from other portions of the university. He said there was a recent grant proposal from the medical school, with UNLV as the lead institution. He said those were the kinds of things we wanted to encourage. He added that the state wants research, and we do not care where it comes from.

Chairman Aizley asked why the professional schools were not part of the formula budgeting. Chancellor Klaich said that the professional schools' classes were so small that the state has been able to consider them as stand-alone items. He said the formula for some of the schools were grossly disproportionate to the undergraduate education enterprise because of their highly technical aspects. It has always seemed better to have those deans address the of Board of Regents and the Legislature to justify their budgets.

DR. GEDDES MOVED TO ADOPT RECOMMENDATIONS 4.C AND 5.C OF THE WORK SESSION DOCUMENT, THAT FURTHER REFINING OF THE MEASURES OF PERFORMANCE POOL AND MATRIX WAS NEEDED BEFORE IT IS BROUGHT TO THE LEGISLATURE.

THE MOTION WAS SECONDED BY MR. DILLON.

Senator Kieckhefer said he was not sure that bringing the question to the full Legislature was the right course. He agreed there were looming questions that needed to be addressed, and further refinement was warranted, but he did not know whether it needed to go to the full Legislature.

Senator Kieckhefer said he had several questions on item 5. He observed that there was a very significant change to the matrix between versions 19 and 20 on the definition of gateway course completers that significantly altered the pool for community college outcomes. He asked if the matrix reverted to a former definition, and how that came to be.

Ms. Abba said the definition was changed because in version 19, in order for a course completion to be counted as a gateway course completion, the student had to have been in remediation in the prior year. Essentially, through that, the proposal incentivized the institutions to place students into remediation so that they could then be counted in the performance pool. Therefore, the better measure would be to count all gateway course completions.

Senator Kieckhefer said that the institutions would not be funded for remediation anyway. Ms. Abba agreed that was correct. She said there was no additional funding for remediation in the base, but the student credit hours were included in the liberal arts cluster. Senator Kieckhefer said it would be a disincentive to put people into remediation in hopes of capturing the performance pool funding the next year. Ms. Abba said she would not use the term, “disincentive,” but, essentially, the extent to which the student had previously been in remediation would no longer be a factor in the performance pool. Ms. Abba said the data showed that students who succeed in a gateway course are more likely to persist and ultimately graduate. The completion of those initial gateway courses was a strong indication of where they will end up in the long run. This incentivized the institutions to provide the resources so students would complete those initial gateway courses.

Senator Kieckhefer said it had nothing to do with helping those who were unprepared become prepared; rather, it had to do with students who got a C- grade. Ms. Abba said it actually had to do with both. She explained, for those who come in adequately prepared, the institution wants to make sure that they complete successfully, and those students who require remediation will also be counted. In other words, the “end game” was to complete the gateway course, regardless of whether or not the student had remediation. Those students that do require remediation need the gateway course. She said we are essentially counting both.

Senator Kieckhefer still did not know why there was a change. He appreciated the concept of having a student who needed remediation, and having that student complete a gateway course successfully as a signature of achievement and performance. Since this was part of the performance pool, he said it seemed to make of sense to him. Rewarding everyone who got a C- grade in English and math does necessarily seem like a reward for performance.

Ms. Abba said that NSHE was in the process of reforming remediation across the system based on national best practices. NSHE has held a number of workshops in math and English and sought the consultation of groups like the Education Commission of the States, and individuals who are experts in remediation. There are lots of cases in which students are put into remediation unnecessarily, and in doing so, they do not complete, because they get discouraged. The national best practices recommend ways outside of the traditional remediation course to make sure students are appropriately prepared for the rigors of a college level course. In version 19, by only counting those individuals that had previously been remediated and that had completed the gateway course, the proposal was essentially sending the signal to the institutions to put those students into remediation to get the point in the performance pool. This was not the appropriate behavior to incentivize. Rather, the goal is to make sure that all students, not just the students that have previously been remediated, complete that gateway course, because national data and our own data show that it is a strong indication of future success.

Senator Kieckhefer said he had a hard time imaging that an institution would put a student into remediation knowing that there would be no enhanced funding for remediation in the formula, based on the student successfully completing the gateway course the next semester. Ms. Abba said that if an institution placed a student into remediation, and the student successfully completed the gateway course, that would be counted under version 20. Because it was not a precursor for being counted, it actually removed the incentive, and allowed the institution to make the determination whether or not it was appropriate to place a student into remediation. She explained that the system did not want to nudge them to put students unnecessarily into remediation for the sake of getting a point in the performance pool. This way, by counting them all, the system is telling them to focus on the end game, which is to make sure the student successfully completes the gateway course.

Senator Kieckhefer commented on Dr. Geddes' earlier reference to efficiency. Senator Kieckhefer said the weight given to efficiency was increased to 10 percent, but it really had very little bearing on any institution's weighted points. He asked if there was a mechanism to actually put efficiency into the formula in a way that would create some incentive for efficiency. He said, right now, he cannot imagine what an institution would have to do to make efficiency count very much toward their total weighted points. He noted that for UNLV, efficiency was only 2.6 points out of 2,016.1 point.

Ms. Abba said Senator Kieckhefer was absolutely correct. It was the nature of that metric that if it was weighted at 10 percent, it ended up at less than 3 points. She said one way to make it more meaningful in the context of other outcomes was to use scaling. She said versions 1 through 12 of the matrix attempted to include some type of scaling across the board for all of the outcomes. She said scaling was abandoned because it was confusing; however, it may be appropriate for one outcome. In this case, the efficiency metric could be multiplied by 10 or 100, whatever was deemed appropriate, to give it more points in the total pool.

Senator Kieckhefer said using a multiplying factor to give it some weight was very similar to what he was thinking. Otherwise, he said, there was really no point in including it because it added nothing to the funding for the institutions. Ms. Abba agreed and said she had this conversation a number of times with NGA. She said NGA pointed out that although the metric does not provide a significant number of points, it sends a policy signal to the institutions in terms of focusing on inputs and outputs.

Senator Kieckhefer referred to version 20 of the matrix on page 14 of NSHE's August 10, 2012, Response to LCB Questions from the July 23, 2012, Meeting ([Exhibit C](#)) noting that there was not much that the institutions could do to shift the percentages very much. Lots of weight is put into the gross number of degrees awarded. The dynamic between UNR and UNLV in that relationship was not going to change very much. There are not lots of avenues by which an institution can significantly alter or improve its standing within this performance pool. He asked if he was misinterpreting.

Ms. Abba said that issue has been discussed within NSHE, and have come to the conclusion that the performance pool allocation was more “stick” than “carrot.” She said, based on what we have seen in other states, over time, the performance pool should change behavior. But in terms of significantly moving the needle, that would be very challenging to do so. She said, an institution would have to meet and exceed the improvement of the other institutions in their tier to get more funds.

Senator Kieckhefer said that improvement would have to be in areas that are heavily weighted. If the improvement was in the area of efficiency, that would not amount to much.

Ms. Abba agreed and said the focus would be on areas that can be improved easily and are weighted more heavily. The priorities are essentially determined through the weighting factors. She said that the primary focus in all of the versions of the performance pool matrix was on graduating students.

Chairman Aizley said there were some glaring changes in the performance pool matrix from version 18 to version 20. Specifically, he asked about the change in the weight for the outcome for at-risk student graduation at UNR from 500 to 770.

Ms. Abba said version 18 was the first version that included at-risk graduates. For a time it was based solely on minority students, then low-income students were added. She said the number was adjusted to include PELL eligible students.

Chairman Aizley noted that another fairly large change was in sponsored external research. He said UNLV went from 618 in version 18 to 497 in version 20. Ms. Abba said that change occurred because expenditures for scholarships and financial aid were removed in version 20.

Chairman Aizley said a vote was needed for Dr. Geddes’ motion, which was seconded by Mr. Dillon, to opt for recommendations 4.C and 5.C, for further refinement of the metrics.

Mr. Haartz said to provide clarification to the full Higher Education Funding Committee to which this recommendation would be made, he asked Dr. Geddes to think about the timeframe, and who would make the refinement. He noted that this was the last Subcommittee meeting, and there was one additional full Committee meeting on August 29, 2012.

THE MOTION CARRIED UNANIMOUSLY.

Moving to the topic of DRI performance funding, Mr. Haartz clarified that at the end of the Formula Funding Subcommittee meeting on August 15, 2012, the Subcommittee voted to preliminarily adopt the recommendation for a separate formula funding

mechanism for DRI subject to further clarification, which would be provided by DRI and the Chancellor's Office. He said DRI has not been included in the performance funding pool, and the Subcommittee may wish to consider that issue.

Senator Kieckhefer asked if the recommendation was to provide DRI with more General Fund based on the amount of research that it generated.

Mr. Hill understood that the basic definition of performance for DRI was the amount of research that it brought into the state. Therefore, this simulated a performance incentive system without it being part of the pool. He thought that approach made sense.

Dr. Stephen G. Wells, President, Desert Research Institute, said that Mr. Hill was correct. He said there was concern that to include DRI in the performance funding pool would be "double dipping," because DRI's research focus was based on bringing in contracts and grants.

Senator Kieckhefer said that was an excellent proposal, and he was glad that the Funding Formula Subcommittee adopted it.

IV. PUBLIC COMMENT.

There was no further public comment.

V. ADJOURNMENT.

Chairman Aizley adjourned the meeting at 3:54 p.m.

Respectfully submitted,

Becky Lowe, Transcribing Secretary

APPROVED:

Paul Aizley, 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.