

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



**Wednesday, June 27, 2012
9:00 a.m.**

**Grant Sawyer State Office Building
555 East Washington Avenue
Las Vegas, Nevada
Room 4401**

Videoconference to:

**Legislative Building
Room 3137
401 South Carson Street
Carson City, Nevada**

**Great Basin College
High Tech Center
Room 121
1500 College Parkway
Elko, Nevada**

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LEGISLATIVE COUNSEL BUREAU

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MEETING NOTICE AND AGENDA

Name of Organization: COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION (SENATE BILL 374, 2011 LEGISLATURE)

Date and Time of Meeting: June 27, 2012 – 9:00 a.m.

Place of Meeting: Grant Sawyer Office Building
Room 4401
555 East Washington Avenue
Las Vegas, Nevada

Note: Some members of the committee may be attending the meeting and other persons may observe the meeting and provide testimony through a simultaneous videoconference conducted at the following locations:

Legislative Building Room 3137 401 South Carson Street Carson City, Nevada	Great Basin College High Tech Center Room 121 1500 College Parkway Elko, Nevada
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If you cannot attend the meeting, you can listen to or view it live over the Internet. The address for the Nevada Legislature website is <http://www.leg.state.nv.us>. Click on the link "Live Meetings – Listen or View."

Note: Please provide the secretary with electronic or written copies of testimony and visual presentations if you wish to have complete versions included as exhibits with the minutes.

AGENDA

Note: Items on this agenda may be taken in a different order than listed. Two or more agenda items may be combined for consideration. An item may be removed from this agenda or discussion relating to an item on this agenda may be delayed at any time.

I. ROLL CALL.

II. PUBLIC COMMENT.

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers.)

**For
Possible
Action**

III. APPROVAL OF MINUTES OF THE APRIL 25, 2012, MEETING.

**For
Possible
Action**

IV. PRESENTATION AND DISCUSSION BY NATIONAL GOVERNORS ASSOCIATION'S CENTER FOR BEST PRACTICES REGARDING STATES' USE OF PERFORMANCE CRITERIA IN THE FUNDING OF HIGHER EDUCATION AND RECOMMENDED PERFORMANCE FUNDING PRACTICES.

Travis Reindl, National Governors Association, Center for Best Practices

**For
Possible
Action**

V. PRESENTATION AND DISCUSSION REGARDING NEVADA'S PARTICIPATION IN THE POLICY ACADEMY ON PERFORMANCE FUNDING IN HIGHER EDUCATION SPONSORED BY THE NATIONAL GOVERNORS ASSOCIATION.

Heidi Gansert, Governor's Office

**For
Possible
Action**

VI. PRESENTATION AND DISCUSSION REGARDING THE BOARD OF REGENTS OF THE UNIVERSITY OF NEVADA'S STRATEGIC INITIATIVES FOR THE NEVADA SYSTEM OF HIGHER EDUCATION.

Jason Geddes, Chairman, Board of Regents

Daniel Klaich, Chancellor, Nevada System of Higher Education

**For
Possible
Action**

VII. DISCUSSION REGARDING THE PROVISION IN THE CONTRACT WITH COMMITTEE CONSULTANT SRI INTERNATIONAL RELATING TO THE REPORT ON STATES' METHODS OF FUNDING HIGHER EDUCATION (CONTRACT DELIVERABLE #4).

**For
Possible
Action**

VIII. PRESENTATION AND DISCUSSION REGARDING SRI INTERNATIONAL CONTRACT DELIVERABLE #4, STATES' METHODS OF FUNDING HIGHER EDUCATION.

IX. PUBLIC COMMENT.

(Because of time considerations, the period for public comment by each speaker may be limited, and speakers are urged to avoid repetition of comments made by previous speakers.)

X. ADJOURNMENT.

Note: We are pleased to make reasonable accommodations for members of the public who are disabled and wish to attend the meeting. If special arrangements for the meeting are necessary, please notify the Fiscal Analysis Division of the Legislative Counsel Bureau, in writing, at the Legislative Building, 401 South Carson Street, Carson City, Nevada 89701-4747, or call the Fiscal Analysis Division at (775) 684-6821 as soon as possible.

Notice of this meeting was posted in the following Carson City, Nevada, locations: Blasdel Building, 209 East Musser Street; Capitol Press Corps, Basement, Capitol Building; City Hall, 201 North Carson Street; Legislative Building, 401 South Carson Street; and Nevada State Library, 100 Stewart Street. Notice of this meeting was faxed for posting to the following Las Vegas, Nevada, locations: Clark County Government Center, 500 South Grand Central Parkway; and Grant Sawyer State Office Building, 555 East Washington Avenue. Notice of this meeting was posted on the Internet through the Nevada Legislature's website at www.leg.state.nv.us.

**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 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 its 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 its 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 one 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 disincite 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 be 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: $\text{state apportionment} = \text{target allocation} - (\text{property tax revenue} - (98\% \text{ of fees}))$ 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 SRI'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 be made 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,

Patti Sullivan, Committee Secretary

APPROVED:

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.

Higher Education Performance: Trends and Issues

June 27, 2012

Las Vegas, NV

Travis Reindl



Higher Education's Triple Threat (or Opportunity)

1. The economy is demanding more educated workers, and there is growing evidence of a mismatch between jobs and skills.
2. Colleges and universities must compete for fewer resources today and in the future.
3. A swelling tide of more (and more diverse) students will put pressure on public colleges and universities.

Bottom Line: States must engage questions about investment priorities and return on investment in postsecondary education.

Measuring Performance: Common Completion Metrics

Progress Metrics

Measures of interim achievements strongly linked to student success

**REMEDiation:
ENTRY and SUCCESS**

**SUCCESS in FIRST-YEAR
COLLEGE COURSES**
(1st yr. math and English)

CREDIT ACCUMULATION

RETENTION RATES

COURSE COMPLETION

Outcome Metrics

Indicators of successful outcomes

**DEGREES AWARDED
ANNUALLY**
(# and change over time)

GRADUATION RATES

TRANSFER RATES

**TIME and CREDITS to
DEGREE**

Measuring Performance: Efficiency and Effectiveness Metrics

1. Meeting Workforce Needs

- Certificates/Degrees relative to employed adults with a postsecondary credential
- Certificates/Degrees relative to adults in the state with no postsecondary credential

2. Student Output Relative to Input

- Certificates/Degrees per enrollment

3. Return on Investment

- Certificates/Degrees per state appropriations and tuition revenues
- Certificates/Degrees per education and related spending

4. Quality (Student Learning)

- Direct measures of learning
- Indirect measures of learning
- Measures of the learning environment

Funding Performance

Design Principles for Performance Funding 2.0

1. All funding is performance-based
2. Goals are essential
3. Don't get too narrow on metrics
4. Honor and reinforce mission
5. Reward serving the underserved
6. Limit the outcomes to be rewarded
7. Use clear metrics that are harder to game
8. Reward continuous improvement
9. Make the performance pool worth the time and effort
10. Make sure all the pieces line up with state goals

SOURCE: NCHEMS

Funding Performance

Implementation Principles for Performance Funding 2.0

1. Phase it in
2. Use stop-loss, not hold harmless, to ease the pain
3. Don't suspend the policy when revenues fall

SOURCE: NCHEMS

Case Example: Tennessee

- Longest history with performance funding (1979)
- Revamped base formula in 2010-11
- Outcomes formula completely replaced enrollment-based formula

Two-Year Institutions

- Student progression (accumulation of 12/24/36 credit hours)
- Student participation in dual enrollment
- Number of credentials awarded (certificates and associate degrees)
- Number of students passing remedial/developmental courses
- Number of students transferring out (with 12+ credits)
- Job placements
- Workforce training (number of contact hours)
- Degree productivity (credentials per 100 FTE enrollment)

Four-Year Institutions

- Student progression (accumulation of 24/48/72 credit hours)
- Degree awards
- Research funding
- Transfer
- Degree productivity (awards per 100 FTE enrollment)
- Graduation rate

Case Example: Pennsylvania

- Performance pool started in 2000
- 8% of base (2008-09)
- 10 indicators (5 common, 5 institutional choice)
- Results: graduation rate gains, esp. for minorities

Area	Measures
Access	<u>Required (2):</u> <ul style="list-style-type: none"> • Closing enrollment gaps (income and race/ethnicity) • Faculty diversity (gender and race/ethnicity) <u>Optional (choose 0-4):</u> <ul style="list-style-type: none"> • Faculty career advancement (underrepresented groups) • Employee diversity (non-faculty) • Student experience with diversity • Student diversity (income and race/ethnicity)
Success	<u>Required (2):</u> <ul style="list-style-type: none"> • Degrees conferred (total and per FTE undergraduate enrollment) • Closing achievement gaps (income and race/ethnicity) <u>Optional (choose 0-4):</u> <ul style="list-style-type: none"> • Learning (via National Survey of Student Engagement) • Senior Survey (National Survey of Student Engagement) • Student persistence (return for third and fourth years) • Learning (via CLA, CAAP, or ETS Proficiency scores) • STEM degrees (as percentage of total degrees)
Stewardship	<u>Required (1):</u> <ul style="list-style-type: none"> • Non-public support (i.e. support other than state funds or tuition) <u>Optional (choose at least 1):</u> <ul style="list-style-type: none"> • Operating effectiveness (via Return on Physical Assets Study) • Administrative expenditures (as a percentage of cost of education) • Credit hour productivity (total credit hours per FTE faculty) • Employee productivity (FTE students per FTE faculty and staff)

Case Example: Ohio

- Developed in 2009-10
- Currently less than 10% of base; slated to grow over time

Sector	Factors/Measures
Community and Technical Colleges	<ul style="list-style-type: none"> • Enrollment • Student Success <ul style="list-style-type: none"> Remedial success Credit accumulation (15/30 credit hours per year) Associate degree awards Successful transfer (with 15+ credit hours)
University Regional Campuses	<ul style="list-style-type: none"> • Course Completion (total and at-risk students*)
University Main Campuses	<ul style="list-style-type: none"> • Course Completion (total and at-risk students*) • Degree Completion (total and at-risk students,* age, and race/ethnicity)

*At-risk is defined as *academic* (ACT score of 17 or less in math or English or participation in developmental education courses) or *financial* (expected family contribution of \$2,190 or less for federal student financial aid).

Questions for Nevada

Vision:

Is there a clear sense of where Nevada wants to be when it comes to having an educated population?

Economic Needs:

Is there a clear connection between university system outcomes and the needs of the state's economy, both now and looking ahead?

Capacity:

Does North Dakota have the staffing and technology to not just collect information, but to make it actionable?

Urgency:

Is there enough of a sense that change is needed among all of the key stakeholders?

I. INITIATIVE #1: Increase Student Achievement, Retention and Success

1. Improve remediation efforts and develop new instructional strategies and strengthen K-12 partnerships to ensure students are adequately prepared for the rigors of college level coursework.
2. Focus research activities in areas with high probability of success and recognition; review and streamline research activities in areas of lower demand or success.
3. Increase student mentoring and advising efforts to ensure that students are aware of and understand the steps necessary for success.
4. Remain responsive to faculty concerns in order to attract and retain qualified faculty to carry out strategic direction and achieve institutional goals.
5. Re-examine all courses in order to utilize transformative teaching methods that benefit students.
6. Require institutions to examine and establish procedures and goals to ensure that all students admitted receive the essential access to classes and support services that will allow them timely progress to degree.
7. Require the development of academic degree plans for all degree-seeking students through mandatory advising.

II. INITIATIVE #2: Increase Transparency, Accountability and Performance

1. Adopt the Complete College America (CCA) goals, including goals for enrolling and graduating students from diverse backgrounds.
2. Reward institutions for progress in achieving adopted performance standards, including goals agreed upon through the National Governor's Association Policy Academy and the CCA completion metrics.
3. Establish institutional protocols for reviewing student performance and determining the extent to which they are pursuing and completing educational programs and acquiring the skills demanded of Nevada employers.
4. Develop and implement institutional assessment plans and effective measures of student learning outcomes for all academic programs—these plans should define student learning outcomes, assess student performance and be used to improve teaching and learning.
5. Utilize data to identify obstacles to student success and take appropriate steps to correct those obstacles.
6. Develop incentives for recruiting and retaining high performing and innovative faculty.
7. Establish performance metrics to set budget parameters, determine system priorities and allocate performance funding dollars.
8. Establish institutional incentives that reinforce behaviors that lead to student success.

III. INITIATIVE #3: Continuous Review and Revision of Programs to Support Innovation and Responsiveness

1. Develop new degree and certificate programs to provide students with career and technical options consistent with current and forecasted economic development and workforce goals of the state.
2. Examine whether, for students who do not meet university admission requirements, to require a transferable associate's degree (AA, AS or AB) to transfer to a university.

3. Develop appropriate public/private partnerships with community, businesses, and K-12 to support innovation connectivity, including enhanced collaborative R&D efforts between industry and higher education research institutions.
4. Establish goals for increasing the number of and revenue from grants for research and workforce development in areas of high demand/success, including R&D that will support intellectual property and commercialization.
5. Seek funding for innovative and cutting-edge research, including funds to support the Nevada Knowledge Fund and that leads to invention disclosure, licenses and related income, including spin-off companies.
6. Align overarching research and workforce development priorities with the state plan for economic development
7. Strengthen degrees and certificates that link to identified future jobs sought by Nevada in its economic development plan
8. Participate on the State Board of Economic Development

IV. INITIATIVE #4: Ensure that Higher Education is Accessible and Affordable for All Nevadans

1. Increase the college participation rate for students from low income and first generation families through transparent and predictable financial aid programs.
2. Focus financial aid programs on students seeking degrees who engage in patterns of success, including full-time enrollment.
3. Establish financial aid programs that address the unique challenges faced by underrepresented students.

PLAN FOR IMPLEMENTATION

In response to the strategic directions of the Board, the Chancellor and Presidents, with the support of a broad cross section of staff and faculty, have begun work on the following initiatives and projects:

INITIATIVE #1: Increase Student Achievement, Retention and Success

- National Governors Association Policy Academy - Metrics Project
- Complete College America
- Efficiency & Effectiveness Committee
- Remedial Education Project
- PEBP Task Force
- Salary and Benefits Schedule Review
- P-20 Initiatives \ Alignment
- Diversity/EDIC Council Recommendations adopted September 2011

INITIATIVE #2: Increase Transparency, Accountability and Performance

- National Governors Association Policy Academy - Metrics Project
- Complete College America
- Formula Funding Study
- iNtegrate – Wrap SIS and Launch iNtegrate2
- NSHE data warehouse
- Code Review Task Force
- Statewide Longitudinal Data System
- Government Relations/Communications Plan

INITIATIVE #3: Continuous Review and Revision of Programs to Support Innovation and Responsiveness

- Nevada Health Care Sector Council
- Community College Task Force Implementation
- Health Sciences Council
- Low Yield Policy Proposal
- Academic Health Center – partnership with University Medical Center
- Efficiency & Effectiveness Committee – savings reinvestment

INITIATIVE #4: Ensure that Higher Education is Accessible and Affordable for All Nevadans

- Access & Affordability Committee

IMPLEMENTATION OF STRATEGIC DIRECTIONS

At the January 20, 2012, meeting of the Board, the Regents adopted strategic directions that the System and its institutions will use as a road map for meeting the Board's various goals and initiatives. The following is a timetable for the completion of the projects outlined in the strategic directions document, including the primary staff person at the System and institution level, will be completed upon the Board's adoption of the defined initiatives. In addition, a summary of each project is also included herein.

Project	Lead Staff	Estimated Time of Completion
1. NGA Policy Academy – Metrics	Crystal Abba	December 2012
2. Complete College America	Crystal Abba	On-going
3. Efficiency & Effectiveness Committee	To Be Determined	To Be Determined
4. Remedial Education Project	Crystal Abba	December 2012
5. Salary & Benefits Schedule Review	Brooke Nielsen Christine Casey	December 2012
6. P-20 Initiatives/Alignment	Crystal Abba	On-going
7. Diversity/EDIC Council Recommendations	NSHE Presidents	On-going
8. Formula Funding Study	Mark Stevens	September 2012
9. iNtegrate – Wrap SIS and Launch iNtegrate 2	Steve Zink	On-going
10. NSHE Data Warehouse	Steve Zink Crystal Abba	2014
11. Code Review Task Force	Brooke Neilson	December 2012
12. Statewide Longitudinal Data System	Steve Zink Crystal Abba	On-going
13. Government Relations/Communications Plan	Renee Yackira	September 2012
14. Nevada Health Care Sector Council	Marcia Turner	On-going
15. Low Yield Policy Proposal (eff. Fall 2012)	Crystal Abba	Adopted 12/11
16. Academic Health Center – UMC partnership	Marcia Turner	On-going
17. Access and Affordability Committee	Crystal Abba	September 2012
18. State Board of Economic Development	Renee Yackira	On-going

NGA Policy Academy – Metrics

The NGA Policy Academy brought together a working group with representatives from NSHE, the Governor’s Office, the state Legislature, and the business community to develop an agreed upon set of performance metrics intended to measure progress toward the state’s goals of graduating more students for Nevada’s “new economy.” The metrics agreed upon include the CCA metric (number of degrees and certificates awarded), an efficiency metric (number of degrees and certificates per 100 student FTE), state and student return on investment (number of degrees and certificates per \$100,000 of state appropriations and net tuition revenue), and a number of quality metrics (number of graduate employed by industry in Nevada, licensure exam pass rates, etc.)

Complete College America

Complete College America is building an Alliance of States ready to take bold actions to significantly increase the number of students successfully completing college and achieving degrees and credentials with value in the labor market and close attainment gaps for traditionally underrepresented populations. Nevada is one of 30 states to join the Alliance and in doing so has agreed to increase the number of students graduating with a degree or credential of value by 1,064 each year (from public and private institutions).

Efficiency & Effectiveness (E&E) Committee

The NSHE E&E Committee is charged with reviewing business practices to improve efficiency. The iNtegrate 2 project will include a comprehensive review and restructuring of system-wide business practices that will support the efforts of the E&E Committee.

Remedial Education Project

NSHE institutions are in the process of reviewing how they deliver remedial English and mathematics to students in an effort to ensure that students are appropriately prepared for the rigors of college-level work. That project will include reviewing the Board’s current remedial placement policy and adjusting the prescribed cut scores as appropriate.

Salary & Benefits Schedule Review

The Chancellor formed the first NSHE Salary Schedule Review Committee to assist with the salary schedule review required under the Board of Regents *Handbook*, Title 4, Chapter 3, Section 24. Appointments to the committee were made by the NSHE Presidents. Interim Chief Counsel, Brooke Nielsen is the chair the committee and Christine Casey, NSHE Human Resources Director is the vice chair. The last salary schedule revision was approved by the Board of Regents in 2007, and an extension was granted by the Board to complete the current review. The Chancellor has advised the Board of Regents that a review will be completed and presented at the Board’s December 2012 meeting.

P-20 Initiatives and Alignment

P-20 initiatives in the coming year will focus on the implementation of the assessments for the Common Core State Standards. Nevada, through the Governor’s Office, is applying for a grant with the National Governor’s Association designed to address issues related to the Common Core State Standards including teacher preparation and licensure/certification; college preparation and assessment of students readiness for credit-bearing courses; and redesign of development education (also addressed in the remedial education project).

Diversity/EDIC Council Recommendation

The Ethnic, Diversity and Inclusion Council is currently working towards establishing business practices so that institutions may share applicant pools – intended to increase the diversity of NSHE recruiting efforts. In addition, EDIC is working on holding diversity summits in the north and south in 2012. Each summit will address the unique challenges associated with diversity in that particular geographic region.

Formula Funding Study

The Legislative Committee to Study the Funding of Higher Education established through the enactment of Senate Bill 374 (Chapter 375, *Statutes of Nevada 2011*) is charged with reviewing the NSHE funding formula in the context of course completions (in contrast to the current method for funding enrollments) and rewarding institutions for achieving defined goals of graduating more students. The NSHE proposed an alternative funding formula that is based on course completions and uses a discipline matrix to assign weights based on disciplines. In addition, the proposed model includes a performance pool component that is currently being developed through conversations with the NGA Policy Academy working group.

iNtegrate – Wrap SIS and Launch iNtegrate2

iNtegrate is the brand given to the system-wide implementation of new information systems for all NSHE institutions. The first information system selected for implementation was the Student Information System, giving priority to improving student services, and was completed in 2011. The second phase of the project will address Finance and Human Resources modules and will include a comprehensive review and restructuring of NSHE business practices.

NSHE Data Warehouse

System Administration is in the process of developing a permanent student data warehouse that will include student bio-demo, financial aid, enrollment, completion, and course taxonomy data. The student data warehouse will act as an archive of data that is then used for the purposes of institutional research and for the numerous report mandates of the Board of Regents and state law.

Code Review Task Force

The Code Review Task Force was created by the Vice Chancellor of Legal Affairs in December 2010 to examine certain significant process areas of Chapters 5 and 6 of the Code (and any related provisions in Board Policy), and to make recommendations to the Chancellor/Presidents, other interested constituencies, and ultimately, to the Board of Regents.

The key areas being addressed by the Task Force include: curricular review; progressive discipline, in particular the process associated with issuing a warning; Chapter 6 process and the relative balance between the rights of the complaining party, the institution and the charged party; and separating the student disciplinary process from faculty discipline, and other areas that need review and "clean-up," as time permits.

Statewide Longitudinal Data System

A Statewide Longitudinal Data System (SLDS) would allow the Nevada Department of Education, NSHE, and the Nevada Department of Employment, Training, and Rehabilitation (DETR) to easily report and share information by using common data standards and secured data transfer. Nevada has received a grant of approximately \$4 million to create and assign a Unique State Personal Identifier (USPI) to Nevada individuals so that students, teachers, and workforce individuals can be followed throughout their enrollment in PreK-12 and postsecondary

education, and into the workforce. The USPI is the first step that will link all three agency's data systems.

Government Relations/Communications Plan

NSHE is working on establishing a standard Government Relations/Communications Plan to facilitate the transmission of information within and outside NSHE.

Nevada Health Care Sector Council

During the 2009 Session of the Nevada Legislature, Senate Bill 239 was enacted establishing a Nevada's Health Care Sector Council (HCSC). The HCSC is housed within the Department of Education, Training and Rehabilitation, and also works closely with the Governor's Office of Economic Development in support of its mission. The HCSC is currently chaired by Vice Chancellor Turner, and its membership includes other NSHE health sciences leaders, along with representatives from more than 20 other public and private health care organizations throughout Nevada. The HCSC's mission is to foster the development of health-related job training and education programs and policies to best meet Nevada's economic development goals within the health care industry and to assist the Governor's Workforce Investment Board (GWIB) to identify and seek federal funds to provide grants to fund those job training and education programs.

Low Yield Policy Proposal (eff. Fall 2012)

The low yield policy adopted in December 2011 requires a regular review of academic programs with respect to the number of graduates produced in the prior three years. , this regular review of program productivity will provide institutional administrators with the opportunity to decide to strengthen or merge programs, initiate alternative strategies such as distance learning to improve productivity, identify programs that will benefit from collaboration or the consolidation of resources, or discontinue programs. Academic programs designated as low-yield must be reviewed in consultation with the Faculty Senate within three years of the program reaching the defined thresholds to determine whether there are sufficient factors to support the program's continuation or merger with other programs. The institution may recommend to the Board the elimination of the program, in which case every effort shall be taken to allow current students to graduate and faculty to be placed in other programs if feasible.

Academic Health Center – UMC Partnership

The Nevada System of Higher Education and the Clark County Board of Commissioners have joined forces to transform University Medical Center of Southern Nevada (UMC) into a more robust Academic Health Center (AHC). While the University of Nevada School of Medicine (UNSOM) and many of the NSHE nursing and other health sciences programs have worked closely with UMC to promote health education and provide clinical services at UMC over the years, representatives from the NSHE Health Sciences System and related health sciences programs have begun to work with UMC administration and staff to identify new ways in which to enhance and expand the current partnerships to support the development of educational programs and the quality of care at UMC. The new level of collaboration will help to transform UMC into a true AHC and enable NSHE and UMC to better meet the needs of our students and our state.

Access and Affordability Committee

In the context of Nevada's rising tuition levels and limited financial aid resources, Chancellor Dan Klaich appointed the ad-hoc Committee on Access and Affordability in 2011 to review the Board of Regents tuition, fee and student financial aid policies in the context of encouraging full-time enrollment and degree completion. The final report of the Committee will be presented at the September Board meeting.

State Board of Economic Development

Matters related to workforce and economic development have long been a priority of the Board of Regents clearly evident in September 2011 when the Board established the Workforce, Research and Economic Development Committee. The passage of Assembly Bill 449 (Chapter 507, *Statutes of Nevada 2011*) in the 2011 Session of the Nevada State Legislature provided for the establishment of an Advisory Council on Economic Development and a Board of Economic Development charged with establishing statewide economic development goals for the State of Nevada. The creation of an NSHE Workforce, Research and Economic Development Committee will allow the NSHE and its institutions to align appropriately with the economic development and workforce development goals of the state. Steve Hill, the Director of the Governor's Office of Economic Development, reports to the WRED committee at each meeting on the current initiatives and activities of the office.

AGREEMENT

This Agreement is hereby made this 16th day of March, 2012, by and between the Legislative Counsel Bureau ("LCB"), 401 South Carson Street, Carson City, Nevada 89701 and SRI International ("SRI"), 333 Ravenswood Avenue, Menlo Park, CA 94025.

WITNESSETH

WHEREAS, The 2011 Session of the Nevada Legislature enacted Senate Bill No. 374 (S.B. 374), which created an interim Committee to Study the Funding of Higher Education ("Committee") and included funding for the conduct of the study; and

WHEREAS, S.B. 374 authorized the Committee to employ consultants as it deemed necessary for the study; and

WHEREAS, On January 11, 2012, the Nevada System of Higher Education presented to the Committee a proposal for an alternative funding formula ("proposed alternative funding formula"); and

WHEREAS, On February 29, 2012, the Committee selected SRI, which submitted Proposal No. PDH 12-050, to assist the Committee with its study; and

WHEREAS, Pursuant to NRS 218F.110, the Director of the LCB may contract for the services of technical consultants; and

WHEREAS, SRI represents that it is duly qualified, properly licensed and able to provide the necessary services as hereinafter described;

NOW, THEREFORE, in consideration of the mutual covenants herein set forth, the parties agree as follows:

I. TERM OF AGREEMENT

The term of this Agreement shall commence on the date on which it is signed by all of the parties and shall continue in full force and effect until September 30, 2012, unless this Agreement is terminated earlier pursuant to Section XVII of this Agreement.

II. DUTIES OF THE LEGISLATIVE COUNSEL BUREAU

The staff of the LCB will be available to assist SRI in the gathering of Nevada-specific information and data needed to carry out the requirements of this Agreement to the extent that the assistance does not interfere with the daily workload of or require overtime by the staff.

III. DUTIES OF SRI

(A) Report on States' Budgeting Practices Pertaining to Student-Derived Revenues:

On or before April 13, 2012, SRI agrees to provide a report analyzing the current budgeting practices of each formula and non-formula state detailing whether student-derived revenues, such as student per-credit hour registration fees, non-resident tuition and miscellaneous student fees, are budgeted through the legislative process in conjunction with state general fund appropriations or are excluded from the calculation of public funding of higher education in a particular state. SRI will develop a framework for defining and evaluating these practices and apply the framework to the experiences of states that incorporate such practices in addition to the current Nevada funding formula and the proposed alternative funding formula. The analysis will identify the strengths and weaknesses of these practices and focus on the variety of incentives, desirable and perverse, created by the way student-derived revenues are treated to identify best practices and lessons learned.

(B) Report on States' Use of Student Enrollments as a Basis for Higher Education Formula Funding: On or before May 7, 2012, SRI agrees to provide a report on the use of "input measures" such as Full-Time Enrollment (FTE) and course completion as frequently employed elements in state funding formulas. The report must include the definitions of "a full-time equivalent student," "completed course" and "student success" used by states. In this task SRI agrees to develop a framework for defining and evaluating these measures. The framework will then be applied to the experience of states that employ funding formulas that incorporate such measures, as well as to the current Nevada funding formula and the proposed alternative funding formula. The analysis will identify the strengths and weaknesses of these measures and focus on the variety of incentives, desirable and perverse, created by the operation of student-based formulas. The report will identify best practices and lessons learned by states that employ these measures.

(C) Report on States' Inclusion of Performance Related Components in Higher Education Funding Formulas: On or before May 7, 2012, SRI agrees to provide a report analyzing the use of performance criteria in higher education funding formulas. SRI will develop a framework for analyzing the strengths and weaknesses of different approaches and will identify trade-offs that may exist, such as the trade-off between metrics that emphasize and foster efficiency and metrics that focus on quality. This framework will be used to analyze the experience of states that currently use performance criteria in addition to states that previously used performance criteria but no longer do so due to budgetary and other challenges. In addition, SRI will analyze the current Nevada funding formula and proposed alternative funding formula under this framework.

SRI agrees to compare its analysis of states that use performance criteria with the metrics developed by the National Governors Association (NGA), through its Center for Best Practices as part of the "Complete to Compete" initiative, and by the Board of Regents of the University of Nevada in the "Strategic Directions for the Nevada System of Higher Education" adopted on January 20, 2012, and hereby incorporated by reference and included as Attachment "A." The NGA metrics are included in such reports as "Common College Completion Metrics" and "From Information to Action: Revamping Higher Education Accountability Systems." SRI agrees to

also incorporate into its analysis the work now being done by NGA's policy academy on higher education, in which Nevada is a participant. This task will produce a report with the goal of identifying best practices and lessons learned to inform the Nevada Legislature as it considers changes to its higher education funding formula.

(D) Report on States' Methods of Funding Higher Education: On or before June 8, 2012, SRI agrees to provide a report on state's methods of funding higher education with the objective of informing the debate around Nevada's funding of higher education. SRI recognizes that many reports have been produced that simply inventory higher education funding formulas based on data from a wide range of sources, including the National Center for Higher Education Management Systems, State Higher Education Executive Officers, and the Lumina Foundation – so this report will not attempt to reproduce the work that has already been done. Rather, SRI will review and leverage these existing inventories of state funding methods and, where necessary, augment with more detailed research and evaluation of individual state practices, to identify any notable trends and developments across the country in higher education funding.

Based on existing data (augmented as necessary by additional research), SRI will provide a matrix displaying whether or not each state uses a formula for higher education funding. For states using a funding formula, SRI will indicate the primary determinative factors and components of the funding formula by the following specific budgetary functional areas: instruction (including remedial instruction), research, public service, academic support, student services, institutional support, operations and maintenance of physical plant, and scholarships (excluding capital expenditures). For states not using a formula, SRI will provide, if possible, a summary statement of the general considerations guiding higher education funding. To the extent the information is available, SRI shall provide for each formula and non-formula state information that is general as well as specific for each institution or institution type (community college, four-year institution, research university and research institution), in particular if the funding methods differentiate among types of institutions.

The analysis will highlight specific higher education goals associated with different types of funding methods. From the above analysis, SRI will choose states as illustrious examples for each funding method with respect to comparability to Nevada or especially relevant lessons learned. For these states, state documents will be reviewed and state officials will be interviewed to report on the primary determinative considerations (such as institution type) and budgetary mechanisms and the above-described functional areas used in determining the level of appropriated and authorized funding for higher education. Where no formula is used, some estimate will be made and reported of the major considerations driving budgeting. Where a formula is in use, it will be parsed in order to identify the most important variables for determining funding levels. To the extent feasible, SRI agrees to collaborate with the Western Interstate Commission for Higher Education and the State Higher Education Executive Officers Association in this task.

SRI agrees to use these analyses as the basis for distilling best practices for further consideration. Here the findings from earlier deliverables, especially as they relate to the performance criteria developed by the National Governors Association, will be incorporated into

the analysis. The result will be a framework with clearly defined criteria that can be used to judge different approaches (including the proposed alternative funding formula).

SRI agrees to analyze the existing Nevada funding formula, and the proposed alternative funding formula, with respect to how they align with the state's economic and workforce development goals and priorities. This analysis will be informed by and reference other relevant state examples and lessons learned in this area. SRI agrees to reference the economic development plan entitled "Unify / Regionalize / Diversify: An Economic Development Agenda for Nevada."

http://www.brookings.edu/~media/Files/rc/papers/2011/1114_nevada_economy/1114_nevada_economy.pdf prepared on behalf of the state of Nevada.

The deliverable from this task (D) is a report that will analyze the main types of funding methods, trends and best practices, to inform the assessment of Nevada's current funding formula and proposed alternative funding formula, and recommend modifications where appropriate.

(E) **Attendance at Meetings of the Committee:** SRI agrees that the Project Manager and other appropriate personnel of SRI will attend in person at least three (3) meetings of the Committee and will present and answer questions pertaining to its duties under this Agreement. The next tentatively scheduled meeting dates of the Committee are:

- April 25, 2012
- May 23, 2012
- June 27, 2012

SRI agrees that the Project Manager and other appropriate personnel will attend by videoconference the final meeting of the Committee, which is tentatively scheduled on August 15, 2012, and will present and answer questions pertaining to its duties under this Agreement, unless, at least 10 business days before the meeting, the Chair of the Committee requests the Project Manager or other appropriate personnel of SRI to attend the meeting in person. If the Chair of the Committee makes such a request, SRI's travel expenses will be paid by the LCB at the appropriate federal reimbursement rate for the location of the meeting, within 10 days after SRI submits an invoice for such travel expenses. The parties agree that any amount paid as reimbursement for travel expenses pursuant to this paragraph is in addition to the total fixed rate for this Agreement set forth in Section VI of this Agreement.

(F) If SRI has not received any portion of the Nevada-specific information necessary to complete a report required pursuant to Section III of this Agreement, SRI agrees to promptly submit a request for assistance to Alex Haartz, Program Analyst, Fiscal Analysis Division of the LCB, indicating the information that was not submitted and the entity that has failed to submit the required information.

(G) The deadlines for the reports set forth in this section are based on a start date of on or before March 16, 2012, and on the assumption that SRI will receive the completed proposed

alternative funding formula by April 2, 2012. If SRI does not receive the completed proposed alternative funding formula by April 2, 2012, the parties agree that SRI is relieved of its duties set forth in this Agreement with respect to the proposed alternative funding formula.

IV. PROJECT MANAGER

SRI agrees to appoint Roland Stephen as the project manager pursuant to this Agreement. As project manager, Mr. Stephen will be the person primarily responsible for carrying out the duties and obligations of SRI required by this Agreement. Any replacement or substitution of Mr. Stephen as a project manager must be approved in advance in writing by the LCB and that person must possess at least the same degree of skill and expertise as the project manager he or she is replacing.

V. PROGRESS COMMUNICATIONS

SRI agrees that the Project Manager or his designee will communicate with Alex Haartz, Program Analyst, Fiscal Analysis Division of LCB, throughout the term of this Agreement to provide such information as is necessary to assure Mr. Haartz that SRI is making sufficient progress on all deliverables and that the deadlines in this Agreement will be met.

VI. PAYMENT SCHEDULE

(A) SRI agrees to be compensated at a total fixed rate of \$150,000. The payments must comply with the provisions of this section.

(B) Within 10 business days after the execution of this contract by both parties, the LCB agrees to pay SRI \$30,000, less ten percent (10%). Thereafter, within 10 business days after the acceptance of a report required by Section III of this Agreement by the Committee pursuant to Section VIII of this Agreement or by the LCB after rework pursuant to Section VIII of this Agreement, the LCB agrees to pay SRI \$30,000, less ten percent (10%). The total amount of the ten percent (10%) withholdings pursuant to this paragraph will be paid to SRI upon the performance by SRI of all its duties and responsibilities under this Agreement.

(C) Except as otherwise provided in Section III of this Agreement, the payments provided pursuant to this section shall constitute the entire compensation for the services rendered by SRI and shall be deemed to cover all of the costs of SRI, including, without limitation, costs for professional services, overhead, travel expenses, supplies, printing, taxes and other related expenses, if any.

(D) No additional charges of any kind will be allowed unless specifically agreed to in writing, in advance, by the LCB.

VII. STANDARD OF PERFORMANCE

SRI agrees to work faithfully, industriously, and to the best of its ability, experience, and talents in the performance of its duties under this Agreement.

VIII. STANDARD FOR REVIEW OF REPORTS

(A) At the next scheduled meeting of the Committee after receipt of a report required by Section III of this Agreement, the Committee will determine whether the report is:

- (1) Accepted; that is, meeting the specifications of this Agreement;
- (2) Accepted with a rework; that is, essentially to specification of this Agreement, but requiring some correction by SRI; or
- (3) Rejected; that is, failing to meet the specifications of this Agreement in ways indicating that major improvements are needed.

(B) LCB agrees to provide written confirmation of the Committee's action within 10 business days after such action is taken.

(C) If the Committee accepts a report with a rework or rejects a report, LCB agrees to provide SRI with a comprehensive list of all revisions required by the Committee that must be completed by SRI to make the report meet the specifications of this Agreement within 10 business days after the determination of the Committee on the report. SRI agrees to submit one (1) rework of the report to the LCB for reconsideration within 15 business days after receipt of the list. LCB agrees to provide written confirmation of LCB's determination on the rework within 10 business days after receipt of the rework. The LCB agrees that it will act as expeditiously as reasonably possible in making its determination and will not unreasonably withhold acceptance. If the LCB fails to provide SRI with written confirmation of its determination on or before the 10th business day after receipt of the rework, the report shall be deemed accepted by the LCB. For purposes of this Agreement, deemed acceptance has the same legal effect as actual acceptance by the LCB. Final payment on the report shall be withheld until the report is accepted by the LCB without a rework.

(D) After a report is accepted by the Committee pursuant to subparagraph (1) of paragraph (A) of this section or accepted after rework by the LCB pursuant to paragraph (C) of this section, SRI shall be paid in the manner specified in section VI of this Agreement.

IX. INDEPENDENT CONTRACTOR

The parties agree that SRI is an independent contractor and is not an employee of the State of Nevada. There will not be:

- (A) Withholding of income taxes by the State of Nevada;
- (B) Coverage for industrial insurance provided by the State of Nevada;
- (C) Participation in group insurance plans which may be available to employees of the State of Nevada;

(D) Participation or contributions by either the independent contractor or the State of Nevada to the Public Employees' Retirement System;

(E) Accumulation of vacation leave or sick leave; or

(F) Coverage for unemployment compensation provided by the State of Nevada.

X. CHANGE REQUESTS

(A) The LCB or SRI may request a change in the Agreement. Such a request must include a description of the provision(s) to be modified, the rationale for requesting the change and an assurance that the final product will be equal to or better than the specifications set forth in this Agreement. If SRI submits such a request, the LCB will approve or deny the request within ten (10) business days after receipt of the request. The LCB agrees that it will not unreasonably withhold such approval.

(B) Any change in the work processes or services provided by SRI without prior written permission from the LCB shall be at SRI's own risk. The cost and expense will be the responsibility of SRI and SRI may not submit a claim for compensation for work, materials or equipment in connection with such changes, unless authorized by the LCB.

XI. AUDIT REQUIREMENTS

SRI agrees to preserve and make available any books, records and documents relevant to the performance of the Agreement for a period of three (3) years after the date of final payment under this Agreement. If the Agreement is completely or partially terminated, the books, records and documents relating to the work terminated shall be preserved and made available for a period of three (3) years after the date of any resulting final settlement.

XII. NOTICE

All notices under this Agreement shall be deemed sufficient if sent by registered mail, return receipt requested. The representative for receipt of notices for the LCB is:

Alex Haartz, Program Analyst
Fiscal Analysis Division
Legislative Counsel Bureau
401 South Carson Street
Carson City, NV 89701

The representative for receipt of notices for SRI is:

Lisa Kralovic, Senior Contracts Administrator
SRI
1100 Wilson Blvd., Suite 2800
Arlington, VA 22209-3915

XIII. CONTRACT ADMINISTRATION

The LCB hereby designates as the person to be contacted during the period of performance of this contract for contract administration:

Director of the Legislative Counsel Bureau
Legislative Counsel Bureau
401 South Carson Street
Carson City, Nevada 89701

SRI hereby designates as the person to be contacted during the period of performance of this contract for contract administration:

Lisa Kralovic, Senior Contracts Administrator
SRI
1100 Wilson Blvd., Suite 2800
Arlington, VA 22209-3915

XIV. STATE OWNERSHIP

(A) All work performed and all materials, products and deliverables developed or prepared for the LCB by SRI are the property of the State of Nevada and all title and interest therein shall vest in the LCB and shall be deemed to be a work made for hire and made in the course of the services rendered hereunder. To the extent that title to any such works may not, by operation of law, vest in the LCB or such works may not be considered works made for hire, all rights, title, and interest therein are hereby irrevocably assigned to the LCB. All such materials, products and deliverables shall belong exclusively to the LCB, with the LCB having the right to obtain and to hold in its own name copyrights, registrations or such other protection as may be appropriate to the subject matter, and any extensions and renewals thereof. SRI shall not use, willingly allow, or cause to have such materials, products and deliverables used for any purpose other than the performance of its obligations under this Agreement without the prior written consent of the LCB.

(B) SRI agrees to give to the LCB and any person designated by the Nevada Legislature, reasonable assistance, at the expense of the State of Nevada, required to perfect the rights defined in this section. Unless otherwise requested by the LCB, upon the completion of the services to be performed, SRI shall immediately turn over to the LCB all materials and deliverables developed pursuant to this Agreement.

XV. PUBLICITY

SRI shall not use any data, pictures or other representations of the State of Nevada, the Nevada Legislature or the LCB in its external advertising, marketing programs or other promotional efforts, unless SRI obtains the specific advance written authorization of the LCB. The provisions of this paragraph do not preclude SRI from disclosing its client list, including the State of Nevada, the Nevada Legislature and the LCB.

XVI. NO ASSIGNMENT, TRANSFER OR DELEGATION

SRI agrees not to subcontract, assign, transfer or delegate, or otherwise dispose of any rights, obligations or duties under this Agreement without the prior written consent of the LCB.

XVII. TERMINATION

(A) The LCB may at any time, for its convenience and without cause, terminate all or part of this Agreement. To terminate this Agreement pursuant to this paragraph, the LCB must deliver to SRI a notice of termination without cause. Termination of this Agreement pursuant to this paragraph shall be within the sole discretion of the LCB and shall become effective upon receipt by SRI of the notice of termination without cause. The LCB's liability to SRI with respect to termination without cause is limited to the reasonable costs incurred by SRI before the effective date of the termination, but not to exceed the total fixed rate for this Agreement set forth in Section VI of this Agreement. If requested, SRI shall substantiate any cost submitted for payment with proof satisfactory to the LCB. This paragraph does not apply to termination for cause.

(B) SRI is in default of this Agreement and the LCB may terminate the Agreement for cause if the LCB determines that:

- (1) The quality of the work performed by SRI does not meet the specifications of this Agreement;
- (2) SRI fails to comply with the terms of the Agreement to the satisfaction of the LCB;
- (3) The project is more than 30 days behind schedule, without the approval of the LCB;
- (4) SRI has breached this Agreement in any other respect; or
- (5) SRI has sought, or been forced to seek, protection under the Federal Bankruptcy Act.

(C) The LCB is in default of this Agreement if, at any time, the LCB materially breaches any term of this Agreement.

(D) To terminate this Agreement for cause, the nondefaulting party shall send to the defaulting party a notice of default. Termination shall become effective 10 days after the defaulting party receives the notice of default unless during those 10 days the defaulting party cures the default.

(E) If the LCB terminates this Agreement for cause, the LCB is not liable for any costs incurred by SRI and the LCB may procure the services from other sources and hold SRI liable for any excess cost occasioned thereby.

XVIII. LIABILITY INSURANCE

(A) During the term of the Agreement, SRI shall maintain comprehensive public liability and property damage insurance coverage of not less than \$1,000,000 in a form and with an insurer or insurers that have received a rating of "A" or better by A.M. Best Company. The policy shall be a combined single limit, bodily injury and property damage, against liability arising out of the services of SRI, its officers, employees, subcontractors and agents, on the Project. SRI agrees to name the State of Nevada, the Nevada Legislature and their officers, employees and agents as additional insureds on the policy. SRI may comply with the requirements of this section by endorsement to any blanket policy of insurance carried by SRI, provided that the blanket policy meets the requirements of this section.

(B) Evidence of the policy or policies required by paragraph (A) must be furnished to the LCB at the time of the signing of the Agreement and thereafter from time to time as reasonably requested by the LCB. Such evidence must show that the policy or policies shall not be modified or terminated without at least 30 days prior, written notice to the LCB.

XIX. INDEMNIFICATION

(A) SRI agrees to hold harmless, indemnify and defend the State of Nevada, the Nevada Legislature and their officers, employees and authorized agents against any claim, action, loss, damage, injury, liability, cost and expense of any kind or nature arising from SRI's breach of the representations, warranties or obligations under this Agreement or from SRI's negligent acts or omissions in performing this Agreement.

(B) In any claim against the State of Nevada or the Nevada Legislature, their officers, employees and authorized agents, by any employee, any subcontractor of SRI, or any person directly or indirectly employed by any of them, or any person for whose acts any of them may be liable, this indemnification shall not be limited in any way by any limitation on the amount or type of damages, compensation, or benefits payable by or for SRI or any subcontractor under workers' compensation acts, disability benefits acts, or other employee benefit acts.

(C) The remedy provided by the indemnification set forth in this section is in addition to, and not in lieu of, any other remedy. This indemnification must not be diminished or limited in any way to the total limit of insurance required by this Agreement or otherwise available to SRI.

XX. COMPLIANCE WITH LAWS

SRI shall comply with all applicable State, County, and Local Laws, Ordinances, Regulations, and Codes in the performance of its duties under this Agreement.

XXI. CONFIDENTIALITY OF INFORMATION

SRI agrees to maintain the confidentiality of any information, records, and data obtained for the purpose of performing its duties under this Agreement. SRI further agrees not to use such

information for any purpose other than its performance under this Agreement and that it will require its employees to comply with the confidentiality requirements of this section.

XXII. CONTINGENCY/FORCE MAJEURE

(A) The parties will not be held responsible for any delay or failure in performance hereunder caused by fires, strikes, embargoes, requirements imposed by government regulations, civil or military authorities, acts of God or by the public enemy or other similar causes beyond the party's control.

(B) If such a contingency occurs, the party injured by the other party's inability to perform may elect to:

(1) Terminate this Agreement or any part thereof; or

(2) Suspend this Agreement for the duration of the delaying cause, with the option of extending the period for performance for not longer than the length of time the contingency endured.

(C) Unless written notice is given within thirty (30) days after the injured party is apprised of the contingency, suspension of the Agreement as set forth in subparagraph (2) of paragraph (B) shall be deemed selected.

XXIII. SEVERABILITY

If any provision of this Agreement is for any reason held unenforceable in any respect, all other provisions of the Agreement remain in effect, and this Agreement shall be construed as if the unenforceable provision never had been contained herein.

XXIV. INTERPRETATION\VENUE

(A) This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Nevada.

(B) Any cause of action brought by or against the State of Nevada, the Nevada Legislature or their officers, employees or authorized agents arising out of the performance of this Agreement must be instituted and maintained in a court of competent jurisdiction in the County of Carson City, State of Nevada.

XXV. REMEDIES NOT EXCLUSIVE

No remedy provided herein shall be deemed exclusive of any other remedy allowed or provided by law.

XXVI. ENTIRE AGREEMENT

This Agreement sets forth the entire agreement between the parties hereto and no representation or promise not specifically set forth herein shall affect the duties or liabilities of either party hereunder, unless set forth in writing and agreed to by the parties.

IN WITNESS THEREOF, and intending to be legally bound, the parties hereto have caused this Agreement to be executed by their duly authorized representatives.

SRI INTERNATIONAL

March 19, 2012
Date

By: Lisa M. Kralovic
Lisa M. Kralovic
Senior Contracts Administrator

LEGISLATIVE COUNSEL BUREAU NEVADA STATE LEGISLATURE

3/16/12
Date

By: Lorne J. Malkiewich
Lorne J. Malkiewich
Director of the Legislative Counsel Bureau

ATTACHMENT A



STRATEGIC DIRECTIONS FOR THE NEVADA SYSTEM OF HIGHER EDUCATION

December 2011

In its recent publication, *Complete to Compete: from Information to Action*, the National Governors Association identified the “triple threat” facing public colleges and universities nationwide:

1. A greater percentage of jobs requiring postsecondary education;
2. A continuing squeeze in state budgets, particularly from the cost of health care; and
3. A growing population of students from groups that have historically not successfully completed postsecondary programs.

Nevada on a grander scale faces these same challenges. Nevada’s public colleges and universities have historically been successful in serving large numbers of Nevadans, but many students fail to graduate and those who do often take too long to do so. As a result, degree productivity across NSHE institutions is extremely low. In a state that needs more educated workers in the future, the NSHE faces the daunting challenge of producing more degrees in a shorter period of time using fewer resources and ensuring quality.

In response to these pressures, the Nevada Board of Regents initiated a strategic planning process to sharpen the focus of its current master plan, *Building Nevada's Future: A Master Plan for Higher Education in Nevada*. The Board set student success as its primary goal, that is graduating more students with meaningful degrees and certificates, thus positioning the graduates for fulfilling and productive careers and positioning the State with an educated citizenry required for supporting and maintaining economic development and diversification. The following initiatives are designed to support that goal and provide a reasonable plan for achievable implementation.

STRATEGIC INITIATIVES

I. INITIATIVE #1: Increase Student Achievement, Retention and Success

1. Improve remediation efforts and develop new instructional strategies and strengthen K-12 partnerships to ensure students are adequately prepared for the rigors of college level coursework.
2. Focus research activities in areas with high probability of success and recognition; review and streamline research activities in areas of lower demand or success.
3. Increase student mentoring and advising efforts to ensure that students are aware of and understand the steps necessary for success.
4. Remain responsive to faculty concerns in order to attract and retain qualified faculty to carry out strategic direction and achieve institutional goals.

5. Re-examine all courses in order to utilize transformative teaching methods that benefit students.
6. Require institutions to examine and establish procedures and goals to ensure that all students admitted receive the essential access to classes and support services that will allow them timely progress to degree.
7. Require the development of academic degree plans for all degree-seeking students through mandatory advising.

II. INITIATIVE #2: Increase Transparency, Accountability and Performance

1. Adopt the Complete College America (CCA) goals, including goals for enrolling and graduating students from diverse backgrounds.
2. Reward institutions for progress in achieving adopted performance standards, including goals agreed upon through the National Governor's Association Policy Academy and the CCA completion metrics.
3. Establish institutional protocols for reviewing student performance and determining the extent to which they are pursuing and completing educational programs and acquiring the skills demanded of Nevada employers.
4. Develop and implement institutional assessment plans and effective measures of student learning outcomes for all academic programs—these plans should define student learning outcomes, assess student performance and be used to improve teaching and learning.
5. Utilize data to identify obstacles to student success and take appropriate steps to correct those obstacles.
6. Develop incentives for recruiting and retaining high performing and innovative faculty.
7. Establish performance metrics to set budget parameters, determine system priorities and allocate performance funding dollars.
8. Establish institutional incentives that reinforce behaviors that lead to student success.

III. INITIATIVE #3: Continuous Review and Revision of Programs to Support Innovation and Responsiveness

1. Develop new degree and certificate programs to provide students with career and technical options consistent with current and forecasted economic development and workforce goals of the state.
2. Examine whether, for students who do not meet university admission requirements, to require a transferable associate's degree (AA, AS or AB) to transfer to a university.
3. Develop appropriate public/private partnerships with community, businesses, and K-12 to support innovation connectivity, including enhanced collaborative R&D efforts between industry and higher education research institutions.
4. Establish goals for increasing the number of and revenue from grants for research and workforce development in areas of high demand/success, including R&D that will support intellectual property and commercialization.
5. Seek funding for innovative and cutting-edge research, including funds to support the Nevada Knowledge Fund and that leads to invention disclosure, licenses and related income, including spin-off companies.
6. Align overarching research and workforce development priorities with the state plan for economic development
7. Strengthen degrees and certificates that link to identified future jobs sought by Nevada in its economic development plan
8. Participate on the State Board of Economic Development

IV. INITIATIVE #4: Ensure that Higher Education is Accessible and Affordable for All Nevadans

1. Increase the college participation rate for students from low income and first generation families through transparent and predictable financial aid programs.
2. Focus financial aid programs on students seeking degrees who engage in patterns of success, including full-time enrollment.
3. Establish financial aid programs that address the unique challenges faced by underrepresented students.

PLAN FOR IMPLEMENTATION

In response to the strategic directions of the Board, the Chancellor and Presidents, with the support of a broad cross section of staff and faculty, have begun work on the following initiatives and projects:

INITIATIVE #1: Increase Student Achievement, Retention and Success

- National Governors Association Policy Academy - Metrics Project
- Complete College America
- Efficiency & Effectiveness Committee
- Remedial Education Project
- PEBP Task Force
- Salary and Benefits Schedule Review
- P-20 Initiatives \ Alignment
- Diversity/EDIC Council Recommendations adopted September 2011

INITIATIVE #2: Increase Transparency, Accountability and Performance

- National Governors Association Policy Academy - Metrics Project
- Complete College America
- Formula Funding Study
- iNtegrate – Wrap SIS and Launch iNtegrate2
- NSHE data warehouse
- Code Review Task Force
- Statewide Longitudinal Data System
- Government Relations/Communications Plan

INITIATIVE #3: Continuous Review and Revision of Programs to Support Innovation and Responsiveness

- Nevada Health Care Sector Council
- Community College Task Force Implementation
- Health Sciences Council
- Low Yield Policy Proposal
- Academic Health Center – partnership with University Medical Center
- Efficiency & Effectiveness Committee – savings reinvestment

INITIATIVE #4: Ensure that Higher Education is Accessible and Affordable for All Nevadans

- Access & Affordability Committee

TIMETABLE FOR IMPLEMENTATION

The following timetable for the completion of the projects outlined herein, including the primary staff person at the System and institution level, will be completed upon the Board's adoption of the defined initiatives.

Project	Lead Staff	Estimated Time of Completion
1. NGA Policy Academy – Metrics		
2. Complete College America		
3. Efficiency & Effectiveness Committee		
4. Remedial Education Project		
5. Salary & Benefits Schedule Review		
6. P-20 Initiatives/Alignment		
7. Diversity/EDIC Council Recommendations		
8. Formula Funding Study		
9. iNtegrate – Wrap SIS and Launch iNtegrate 2		
10. NSHE Data Warehouse		
11. Code Review Task Force		
12. Statewide Longitudinal Data System		
13. Government Relations/Communications Plan		
14. Nevada Health Care Sector Council		
15. Low Yield Policy Proposal (eff. Fall 2012)		
16. Academic Health Center – UMC partnership		
17. Access and Affordability Committee		
18. State Board of Economic Development		



IMPLEMENTATION OF STRATEGIC DIRECTIONS

March 2012

At the January 20, 2012, meeting of the Board, the Regents adopted strategic directions that the System and its institutions will use as a road map for meeting the Board's various goals and initiatives. The following is a timetable for the completion of the projects outlined in the strategic directions document (attached), including the primary staff person at the System and institution level, will be completed upon the Board's adoption of the defined initiatives.

Project	Lead Staff	Estimated Time of Completion
1. NGA Policy Academy – Metrics	Crystal Abba	December 2012
2. Complete College America	Crystal Abba	On-going
3. Efficiency & Effectiveness Committee	To Be Determined	To Be Determined
4. Remedial Education Project	Crystal Abba	December 2012
5. Salary & Benefits Schedule Review	Brooke Nielsen Christine Casey	December 2012
6. P-20 Initiatives/Alignment	Crystal Abba	On-going
7. Diversity/EDIC Council Recommendations	NSHE Presidents	On-going
8. Formula Funding Study	Mark Stevens	September 2012
9. iNtegrate – Wrap SIS and Launch iNtegrate 2	Steve Zink	On-going
10. NSHE Data Warehouse	Steve Zink Crystal Abba	2014
11. Code Review Task Force	Brooke Neilson	December 2012
12. Statewide Longitudinal Data System	Steve Zink Crystal Abba	On-going
13. Government Relations/Communications Plan	Renee Yackira	September 2012
14. Nevada Health Care Sector Council	Marcia Turner	On-going
15. Low Yield Policy Proposal (eff. Fall 2012)	Crystal Abba	Adopted 12/11
16. Academic Health Center – UMC partnership	Marcia Turner	On-going
17. Access and Affordability Committee	Crystal Abba	September 2012
18. State Board of Economic Development	Renee Yackira	On-going

(BOARD OF REGENTS' AGENDA 03/01/12 & 03/02/12) Ref. BOR-28, Page 1 of 4

I. INITIATIVE #1: Increase Student Achievement, Retention and Success

1. Improve remediation efforts and develop new instructional strategies and strengthen K-12 partnerships to ensure students are adequately prepared for the rigors of college level coursework.
2. Focus research activities in areas with high probability of success and recognition; review and streamline research activities in areas of lower demand or success.
3. Increase student mentoring and advising efforts to ensure that students are aware of and understand the steps necessary for success.
4. Remain responsive to faculty concerns in order to attract and retain qualified faculty to carry out strategic direction and achieve institutional goals.
5. Re-examine all courses in order to utilize transformative teaching methods that benefit students.
6. Require institutions to examine and establish procedures and goals to ensure that all students admitted receive the essential access to classes and support services that will allow them timely progress to degree.
7. Require the development of academic degree plans for all degree-seeking students through mandatory advising.

II. INITIATIVE #2: Increase Transparency, Accountability and Performance

1. Adopt the Complete College America (CCA) goals, including goals for enrolling and graduating students from diverse backgrounds.
2. Reward institutions for progress in achieving adopted performance standards, including goals agreed upon through the National Governor's Association Policy Academy and the CCA completion metrics.
3. Establish institutional protocols for reviewing student performance and determining the extent to which they are pursuing and completing educational programs and acquiring the skills demanded of Nevada employers.
4. Develop and implement institutional assessment plans and effective measures of student learning outcomes for all academic programs—these plans should define student learning outcomes, assess student performance and be used to improve teaching and learning.
5. Utilize data to identify obstacles to student success and take appropriate steps to correct those obstacles.
6. Develop incentives for recruiting and retaining high performing and innovative faculty.
7. Establish performance metrics to set budget parameters, determine system priorities and allocate performance funding dollars.
8. Establish institutional incentives that reinforce behaviors that lead to student success.

III. INITIATIVE #3: Continuous Review and Revision of Programs to Support Innovation and Responsiveness

1. Develop new degree and certificate programs to provide students with career and technical options consistent with current and forecasted economic development and workforce goals of the state.
2. Examine whether, for students who do not meet university admission requirements, to require a transferable associate's degree (AA, AS or AB) to transfer to a university.

3. Develop appropriate public/private partnerships with community, businesses, and K-12 to support innovation connectivity, including enhanced collaborative R&D efforts between industry and higher education research institutions.
4. Establish goals for increasing the number of and revenue from grants for research and workforce development in areas of high demand/success, including R&D that will support intellectual property and commercialization.
5. Seek funding for innovative and cutting-edge research, including funds to support the Nevada Knowledge Fund and that leads to invention disclosure, licenses and related income, including spin-off companies.
6. Align overarching research and workforce development priorities with the state plan for economic development
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(BOARD OF REGENTS' AGENDA 03/01/12 & 03/02/12) Ref. BOR-28, Page 3 of 4

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- Access & Affordability Committee



States' Methods of Funding Higher Education

Report D
June 8, 2012

**REPORT FOR THE NEVADA LEGISLATURE'S
COMMITTEE TO STUDY THE FUNDING OF HIGHER EDUCATION**



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Disclaimer

The findings and observations contained in this report are those of the authors and do not necessarily reflect the views of the Nevada State Legislature, its members or staff, or the Nevada System of Higher Education, its members or staff. They represent SRI International's final report to the Committee, and the content supersedes all earlier versions of the material contained within.

Background

The Nevada System of Higher Education (NSHE) provides higher education to both Nevada residents and nonresidents through the following institutions:

- University of Nevada, Reno (UNR)
- University of Nevada, Las Vegas (UNLV)
- Nevada State College at Henderson (NSC)
- College of Southern Nevada (CSN)
- Western Nevada College (WNC)
- Great Basin College (GBC)
- Truckee Meadows Community College (TMCC)
- UNR School of Medicine
- UNLV Law School
- UNLV Dental School
- Desert Research Institute (DRI)

A 13-member Board of Regents governs the system, representing the 13 districts that comprise the state. The system is headed by the Chancellor's Office.

The bulk of state support for NSHE institutions is based on a set of formulas (which many, including this report, refer to as a single, higher education funding formula). The design of this formula is currently the subject of statewide debate, and is a major focus of a new funding proposal by the Chancellor. Previous debate on the funding formula occurred in the late 1990s when the legislature decided the 1986 methodologies used to fund the University and Community College System of Nevada (UCCSN) "did not adapt well to the explosive growth experienced on several of the UCCSN campuses."¹ The 2001 Legislature revised the higher education funding formula as a result of a 1999 Committee to Study the Funding of Higher Education report. The resulting Committee recommendations kept the basic funding formula that had been in use since the 1960s, but revised it in attempts to "focus on the equitable distribution of available funding."²

The revised funding formula is comprised of four formulas that independently calculate funding levels for Instruction, Academic Support, Institutional Support, and Operation and Maintenance of Physical Plant. Each formula has many complex elements; however, each formula is driven by a few main components:

- The formula for instruction is driven by FTE student counts. Notably, this counts both in-state and out-of-state students. From 2001-2009 the FTE counts were based on a three-year rolling average; however, for the 2009-2011 biennium, the Legislature

¹ Nevada. Committee to Study the Funding of Higher Education. *Legislative Counsel Bureau Bulletin No. 01-4*. January 2001. Web. 6 Aug 2011.

² Nevada. *Ibid.* p. 2

approved utilizing campuses' FY fall 2008 actual and spring 2009 preliminary enrollments for each year of the 2009-2011 biennium for purposes of allocating formula funding.³

- The formula for academic support is based partly on the number of FTE faculty members and staff members, number of library volumes, and the instruction budget.
- The formula for student services is based on combined headcount and FTE enrollment.
- The formula for institutional support is based on total operating budgets.
- The formula for operations and maintenance of physical plant is based on maintained square feet calculation.

In addition to the revised formulas, the 1999 Committee recommended a performance pool to be distributed to institutions that achieved specific performance goals. In 2001, the Governor recommended an allocation of \$3 million for the FY 2002-03 performance pool; however, the 2001 Legislature denied the request because "a comprehensive plan was not provided that specified how the proposed funding would be allocated."⁴ The pool has not been funded since then.

The Nevada 2011 Legislature created the Committee to Study the Funding of Higher Education in Nevada to examine certain funding issues related to the Nevada System of Higher Education. The members of the committees are required to:

1. Compare the existing method of funding higher education in Nevada with the methods used in other states;
2. Determine whether the other methods would be appropriate and useful in Nevada, whereby different missions of universities, state college, colleges and research institutes are appropriately considered in the funding of public higher education in Nevada;
3. Review the funding of remediation in the context of instructional delivery methods;
4. Consider the retention of resident registration fees and nonresident tuition outside of the state-supported operating budget;
5. Consider funding in the context of completed courses in contrast to the current method of funding enrollments;
6. Consider rewarding institutions within higher education for achieving defined goals for graduating students; and,
7. Submit to the Legislative Commission a report of its findings and recommendations for legislation before the commencement of the 77th Session of the Nevada Legislature in February 2013.

To achieve these goals, the Legislative Committee has contracted with SRI International to assist them in their work. This report reviews both other states' mechanisms of funding their higher education systems and existing best practices.

³ Fiscal Analysis Division, Nevada Legislative Counsel Bureau. Education. *2009 Appropriations Report*. p. 147-148.

⁴ Fiscal Analysis Division, Nevada Legislative Counsel Bureau. Education. *2001 Appropriations Report*. p. 20.

Methodology

In many cases, higher education funding policies are a historic mash-up of different priorities and strategic decisions. Though SRI was initially under the impression that large inventories of state funding methods existed, upon review, we found such inventories were spotty and/or outdated. Therefore, SRI ended up undertaking a review of all states' funding methods. The report utilizes an extensive review of state legislation, publications, and reports as well as telephone interviews with state officials performed over the past ten weeks by SRI. Please see Appendix A for a list of the sources for each state.

Nevada's Higher Education Funding Model: Alignment and Performance

Goals: Diversification and Innovation

It is impossible to design or evaluate a funding model for higher education in Nevada without first sifting and defining the announced policy goals of the state. Fortunately, Nevada's leaders and principal stakeholders have engaged in a series of important deliberations on the future direction of the state that have yielded a series of clear goals. They are discovered in the following strategy documents:

Envisioning Nevada's Future: Goals and Strategies for Advancing our Quality of Life, The Nevada Vision Stakeholder Group (September, 2010)

Moving Nevada Forward: A Plan for Excellence in Economic Development, Nevada Board of Economic Development (February, 2012)

Unify|Regionalize|Diversify: An Economic Development Agenda for Nevada, The Brookings Institution and SRI International, (October, 2011)

The motivation for these studies needs little elaboration for anyone who has lived in Nevada over the last five years. After an exhilarating boom in the years immediately prior to the crash, Nevada was one of the states hardest hit by the subsequent recession. The state's economy grew 40% in seven years preceding the collapse, and shrank 10% in the following three years, with unemployment hitting a national low of 13% in the summer of 2011.

This crisis resulted in a determination by leaders and stakeholders to focus much more systematically on the state's economic development strategy. The goal of this renewed focus is the diversification of the state's economy. Diversification is to be achieved by a shift towards targeted economic sectors beyond the state's core activities of tourism and gaming, and retail sales, and by fostering a climate of innovation favorable to small and medium sized businesses and start-ups. The Nevada System of Higher Education (NSHE) is the tool that will make this shift possible.

Higher Education: Alignment and Performance

The central role of the Nevada System of Higher Education (NSHE) is called out in the three strategy documents identified above. Education was one of six critical areas identified in "Envisioning Nevada's Future", which includes two specific objectives related to higher educational performance: increased graduation rates and increased levels of university research (p.47). In "Moving Nevada Forward" the educational system as a whole is identified as underperforming, and a key objective to address this challenge is an increase in students receiving certificates, associate degrees and baccalaureate degrees (p.58). In the area of innovation a key objective is increased industry sponsored research, to be supported with matching funds from the state (p.50). Finally, in "Unify|Regionalize|Diversify" the critical role of higher education is discussed at length in Section VII (pp.128-139), including a repeated emphasis on progress metrics.

The people of Nevada and their leaders take a highly instrumental view of their institutions of higher education. While it remains true that higher education prepares students broadly, to be good citizens and to lead lives of personal fulfillment, the most important priority at present is its contribution to the renewal of the state's economy.

There exist two significant challenges that must be addressed if NSHE is to contribute to effectively. It must closely align its programs and research around the economic development goals of the state, and it must dramatically improve its performance.

NSHE has been funded over the years through an existing mechanism that rewards enrollment. There has been too little consideration of the alignment of degrees and other programs around the economic needs of the state. This is already changing; many NSHE institutions have developed new initiatives in support of economic development goals. But alignment needs to be thoroughly embedded in a new funding model.

In addition, NSHE's current funding mechanism hasn't rewarded performance at all. NSHE's proposed alternative does include a performance pool, which is badly needed because performance in NSHE institutions has been weak. Compared to the 22 research-intensive institutions selected by NSHE as peers, UNR and UNLV had graduation rates in 2010 that place them close to the bottom of the group. Based on 6-year graduation rates, the two institutions are, respectively, 7 and 15 percentage points below the group average of 56%. Both institutions share a 4-year graduation rate of only 14%. These numbers have remained largely unchanged for a decade. Of those students who enroll full-time in 2-year colleges in Nevada, only 25% graduate at all. This low level of performance is costly to the state and to students and their families. Nevada needs to produce more graduates in less time.

NSHE's new funding model should drive NSHE institutions to align their activities around state goals and to significantly improve their performance.

Constraints: Money and Students

The recession had a powerful impact on state revenues in Nevada, which resulted in a 20% decline in state funding for NSHE over the last two biennial budget cycles. It is hoped that this decline is at an end, with the possibility that some salary and benefits cuts will be restored. But it is very likely that state funding will continue to be a constraint into the future. This means that state leaders and NSHE must be willing to make hard choices. Differentiation and division of labor among institutions should be embedded in the funding model. Further, this circumstance makes the creation of a performance pool based on significant additional monies impractical as well as unwise.

A more intractable constraint is the quality of students entering NSHE. Nevada has one of the lowest high school graduation rates in the country. Over 40% of students entering 2-Year colleges require remediation, and almost 30% of students entering 4-Year institutions require it. These numbers reflect, in part, underlying characteristics of the population. Many students are first in their family to go to college; many are "at-risk" due to their socio-economic backgrounds. There also exists in Nevada a significant pool of adult learners who have some college credits, but who need remedial and other services if they are to successfully return to the classroom.

In many ways this mix of incoming students is representative of the future for the whole of the United States. For that reason it represents an opportunity—success in this area will place Nevada ahead of those other states that have not yet come to terms with the country's changing demographics. It must be a central priority of the higher education system to meet the needs of these students. Unless NSHE succeeds in this area, it cannot meet the attainment goals the state has set itself—that is, an increase in the percentage of adults with a higher education certificate or a two or four year degree.

In light of the issues reviewed above, what strategies aimed at alignment and performance should be embodied in Nevada's funding model? Further, what are the institutional arrangements necessary to support these strategies?

Achieving Alignment: Mid-Level Skills, Institutional Autonomy, Degrees in Demand, Research Funding, Specialized Institutions

Alignment will help grow those sectors targeted for economic development, and foster the innovation systems needed by small and medium enterprises.

Mid-level skills

The sectors identified in “Unify|Regionalize|Diversify” represent opportunities for Nevada to shift towards more skill intensive and technology intensive economic activities. That shift will begin with the growth of businesses that require mid-level skills—certificates, two year and four-year degrees (the relevant sectors, skill sets and associated curricula will be discussed in greater detail below). For example, the report notices that disaggregation of work into discrete tasks in the health and medical services field (one of the seven broad sectors targeted in the report) has created opportunities for middle skill, middle-income jobs. While all NSHE institutions should be aligned appropriately, we therefore see the two-year colleges and NSC as providing the overwhelming number of graduates in these areas. A central feature of the model, therefore, should be to provide the incentives and the support necessary for Nevada's access institutions to admit and train a relatively poorly prepared student pool for a clearly defined set of workforce opportunities characterized by mid-level skills.

This will require adequate funds and deep engagement with the local economy. Here we see that the institutional framework is as important as the funding model. To align workforce needs with curricula requires regionally specific analysis at a high level of granularity. The first requirement is an estimate of the existing qualifications, skills and abilities of region's workforce based on current employment patterns. Then the skills associated with the occupations in targeted industry clusters must be estimated. Following a gap analysis, workforce boards, higher education and other stakeholders should identify the programs needed to develop the qualifications, skills and abilities that may be in short supply. The funding formula should then reward institutions for the graduation of students that fill this gap in the workforce.

Institutional autonomy

However, the current governance structure for community colleges in Nevada is poorly adapted to achieve local workforce alignment of the kind described above. We recommend that Community Colleges in Nevada, as in most other states, be part of a separate governance structure—one perhaps still subject to the overall control of the Board of Regents. This structure should allow for the creation of local boards to direct and support each institution.

These will be key mechanisms for achieving local alignment. Furthermore, if appropriate legislation can be designed, we recommend that local revenues be mobilized in support of each college. These could be revenues raised through county government, based on a menu of possible mechanisms (property tax, vehicle registration fees, transfer taxes etc.) and subject to local voter approval (we note, however, that any additional revenues to two year colleges should not count against their share of general fund revenues).

The retention of fees and out-of-state tuition by institutions, and the autonomy to set differential fees for programs in demand, is also a practice that we recommend because of its impact on alignment with workforce needs (the principle of differential fees has already been accepted by NSHE). For example, some classes in allied health fields in high demand cannot be offered often enough because of the high costs of provision. More generally, autonomy will foster an entrepreneurial approach to the development of new curricula and new courses (an entrepreneurial attitude that would be magnified by altering the governance of the two year colleges as discussed above).

Degrees in demand

The workforce and economic development goals of the state should be more generally supported in the funding formula by giving all institutions added credit for students who graduate in the STEM and other fields. The NSHE alternative proposal supports credit hours in many STEM fields at a higher level due to the cost of the course. But institutions should also be rewarded because of the desirability of STEM graduates. Additional weight for STEM and allied health graduates (above and beyond the costs associated with their education) would create incentives for the production of degrees in demand that would cover most of the relevant employment categories.

Research on a new foundation

After careful consideration we believe that general fund support for NSHE though the funding formula should be focused wholly on instruction. There is an appropriate and critical role for state support of research aligned around economic development goals, but that support should be provided through a separate, parallel mechanism. The Knowledge Fund offers such a mechanism:

“Money in the Knowledge Fund may be used by the universities and the Desert Research Institute to provide funding for: (1) the recruitment, hiring and retention of faculty and teams to conduct research in science and technology; (2) research laboratories and related equipment; (3) the construction of research clinics, institutes and facilities and related buildings; and (4) matching funds for federal and private grants that further economic development. In addition, money in the Knowledge Fund will be used to establish a technology outreach program at strategic locations throughout Nevada. Further, the bill authorizes the University of Nevada, Las Vegas, the University of Nevada, Reno and the Desert Research Institute to enter into agreements for the allocation of commercialization revenue generated from programs receiving money from the Knowledge Fund.” (Assembly Bill 449, Chapter 507, Statutes of Nevada 2011).

These purposes should be more specifically aligned around the economic development goals of the state. Research excellence at UNR and UNLV is part of their mission, however the state of Nevada is not in a position to treat all research initiatives equally. Faculty should be recruited;

labs and centers constructed, and research grants matched in areas that directly map onto the economic development targets and sectors in the state's economic development plan.

The Unify|Regionalize|Diversify report notes, in particular, three important paths for supporting research at NSHE institutions: Support for university-industry collaboration, recruitment of star faculty, and matches for competitive public and private grants. (p.110-113). We see industry-university collaboration as most valuable because of the likelihood of the near-term payoffs to business: increased innovation, new investment and jobs. Such proposals should be heavily weighted when awarding money. The other two approaches should be less heavily weighted as having a more long-term payoff.

The Knowledge Fund is not yet funded, although we understand that it is a high priority for the state's leadership. Looking for revenue from the state's general fund will be a challenge. Further, in order to ensure the longevity of the fund, a separate, dedicated source should be identified. Although it is beyond the scope of this project, we note here one possible solution that represents an appropriate match between revenue source and spending purpose.

The Knowledge Fund could be based on a state severance tax, set at a very low level. The tax would be dedicated to the fund alone, not to the general fund. The majority of the funds raised would be used to fund research subject to the criteria identified above. A small part of the funds raised should provide additional support to two institutions of direct importance to natural resource industries.

Specialized institutions

The Desert Research Institute (DRI) is part of the existing formula, but not part of the alternative proposed formula. This may be a cause for concern in the future. Yet many of its activities are easily aligned around the state's economic development assets, especially in the area of natural resources. While we would expect DRI to compete for funds from the Knowledge Fund alongside UNR and UNLV, we recommend in addition that it be granted a baseline level of general institutional support.

One other source of support for DRI could be tuition. In one or two areas—atmospheric sciences, hydrological sciences—DRI provide distinguished faculty to teach classes at UNR. These classes attract out-of-state students. This arrangement is based on a year-to-year memorandum of understanding. One improvement that would help set DRI's revenues on a reliable basis would be for it to share in the out-of-state tuition generated by these classes from these students.

Great Basin Community College (GBCC) also delivers workforce services of direct benefit to the natural resource sector. Because of its extremely large service area it is impossible for GBCC to deliver its services as cost effectively as other colleges. The Knowledge Fund should also provide GBCC with a baseline level of general institutional support in light of these special circumstances, and its specialized mission.

Performance: Remedial Success, Articulation, Differentiation, Graduation and Quality

Nevada expects a relentless overall increase in the production of well-prepared college graduates from its institutions of higher education, with the goal of long-term improvement in educational attainment level of the population. This critical goal should be pursued through several mechanisms.

Remedial success

Successful remedial education will be critical, given the characteristics of the student population described above. The failures of remedial education across the country, as well as in Nevada, are widely recognized. The report “Fresh Look at Nevada’s Community Colleges Task Force” (August, 2011) recommends that remedial education be remade. It proposes that funds for remediation at Community Colleges be directed away from remedial classes and towards other, wrap-around services (counseling etc.) needed to help these population groups succeed. It is proposed that adult learners find private providers for remedial courses. It also notes that the K-12 system represents part of the solution by more effectively discharging its responsibility to graduate prepared students. But improvements in this area will take time.

We have significant reservations with the idea that community colleges should no longer offer remedial classes. Intensive student services are needed, but so too are remedial courses themselves, especially remedial courses to which community college students of all kinds have easy access. Success in this area is so critical that the funding model should give extra weight to the need for both remedial classes and hands-on counseling. There is uncertainty at present over best practices in remedial education—NSHE is working diligently on improvement in this area—but we can be sure that it will be relatively resource intensive.⁵

Articulation

It is important to ensure that students who transfer within the state, or who bring credits with them from out of state, are able to easily apply them to their degree. In addition, in the future, enrolled students who choose to take high quality online courses consistent with their degree requirements should also be able to easily apply them to their degrees. Credits however acquired should not be wasted, and administrative practices and possibly other incentives encouraging the transfer and acceptance of credits help increase graduation rates. Articulation agreements and other practices are the mechanisms that allow true institutional differentiation to function properly.⁶

Differentiation

The main way to increased graduation rates and educational attainment levels is to incorporate incentives into the funding formula that reward institutions for graduating more students in less time. These incentives must be adapted to, and encourage, institutional differentiation. Here

⁵ Faculty within NSHE institutions have been working with leadership provided by Complete College America, Education Commission of the States, and the Western Interstate Commission on Higher Education to redesign remedial course content, instructional design, and placement methods.

⁶ It may be argued that the imperative for seamless articulation across institutions is at odds with the recommendation for a separate governance structure for 2-year/community colleges. But it is by no means clear that is harder to negotiate and implement MOU’s and shared practices across institutions just because they belong to different but not fundamentally dissimilar systems of governance.

Nevada's leadership should make clear choices. UNR and UNLV continue to identify themselves as access institutions. We recommend instead that these institutions should become more selective and shift to offering limited or boutique undergraduate programs at the lower level (perhaps enriched through premium fees), blending these students with transfers from elsewhere at the upper division level. They will focus on upper division preparation for four-year degrees, graduate degrees and research. Access to these institutions should come largely from the two-year colleges and NSC.

Some may argue that transfer students at present are not prepared to the same level as students who enter as freshman. The solution lies in the access institutions themselves. For example, students on a path at a two-year college towards transfer to a four-year degree could take honors classes specifically designed for an academic track.

Graduation

For any specific division of labor, there should also be appropriate performance incentives written into the formula. The proposed alternative formula divides NSHE institutions into two types—four-year and two-year institutions. It includes rewards for total number of graduates produced, and in the case of the colleges, rewards for progress. We believe that more attention needs to be paid to progress metrics for all institutions, and the graduation rate, that is time to degree, also given a heavy weight.

We also believe that Nevada State College (NSC) should be thought of as in a separate, third category. NSC is quite distinct from UNR and UNLV in the sense that it will always remain an access institution. It has a mission distinct from all others. Realizing the goals of alignment and discussed above place a premium on NSHE's ability to dramatically increase the number of two year and four year graduates that come from disadvantaged backgrounds. As an access institution focused on producing B.A. degrees, NSC is in a position to make a significant, even unique contribution. NSC was slated for significant growth before the economic crisis, and we recommend that this should remain the case in the years ahead. In designing a performance pool NSC should be in its own category.

Quality

One other element also identified in that earlier report needs to be reiterated and, eventually included in the performance pool. Producing more graduates more quickly could impact quality. NSHE must make an immediate commitment to tracking quality. The independent assessment of learning outcomes is the best kind of quality control. This should be accomplished through the use of an independent, valid measure of skills across time and across groups of students. As noted elsewhere, we believe that the Collegiate Learning Assessment meets these criteria, but several comparable measures exist. NSHE should identify an appropriate measure and begin data collection immediately.

In short, the new model should be centered on institutional arrangements, financial incentives and performance metrics that support the success of remedial and at-risk students, encourage seamless articulation, foster differentiation, drive increased production of certificates and degrees, and reward reductions in time taken to produce certificates and degrees. Preparations should also be begun to measure and reward quality.

Summary

The vision embodied in the funding approach outlined above is utilitarian. It should be, given the goals and constraints faced by the state of Nevada. It is aimed at achieving the goals of increased alignment and improved performance. This will be achieved through financial incentives and various institutional changes. The principal elements of this approach are summarized in the first table below.

The components of the performance pool necessary to realize this approach are reported in the second table, weighted and organized into three institutional categories. It is more complicated than that outlined in the NSHE proposed alternative formula. However, it meets deficiencies in that pool identified by our earlier report in the area of progress metrics (especially for certain population groups), and includes workforce metrics not yet defined in the NSHE proposal.

The implementation and scale of a performance pool is certain to be sensitive. It should be done by in stages, perhaps over a five-year period. Institutions cannot be held harmless; the purpose of a performance pool is to expose them to penalties in the event of performance shortcomings. However, extra resources may be made temporarily available if the impact on an institution's budget exceeds some pre-determined threshold. The surest path to smooth implementation is the engagement of all institutions in developing the details of the plan.

The scale of the pool is the most sensitive question of all. As reported below, many states have very limited performance pools; Tennessee has turned 100% of its state support into a performance pool. The question is the threshold above which the rewards available alter behavior. Many recent pools aim at a target level of 25% of state funds.

The issue of equity among NSHE institutions requires a final comment. The perception of equitable treatment—by geography or across institutional type—is important if the funding model adopted is to have wide stakeholder and popular support, which is indispensable for long-term success. One straightforward path to credibility is to make the policy goals pursued very transparent, and make clear the tight connections that exist between goals and funding mechanisms. That is an important purpose of the framework reported above.

Table 1: Elements of a new funding model

Alignment	<ul style="list-style-type: none"> • Access institutions should produce graduates with mid-level skills in targeted sectors • Two year colleges should be granted significant autonomy, local control, and retain own-source revenues • All NSHE institutions should be rewarded for SEM and allied health graduates • Research support should be aligned around targeted sectors and innovation • Research should be funded from a separate, dedicated source • Specialized institutions with specific economic development missions should receive baseline financial support
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Performance	<ul style="list-style-type: none"> • Remedial success should receive significant financial support • Articulation should be seamless among institutions • Differentiation among institutions should be accepted and encouraged • Institutions should be rewarded for producing more graduates in less time • Independent measures of quality should be adopted
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Table 2: Performance pool for a new funding model

<p>UNR and UNLV:</p> <ul style="list-style-type: none"> • Metric for the production of Bachelor's, Master's and Doctoral degrees (medium weight)⁷. • Metric for the production of graduates in STEM and allied health fields (additional medium weight). • Metric that captures improvement in graduation rates (heavy weight), for example year-to-year improvement in 6-year graduation rate as defined by IPEDS, controlling for transfers. • Metric that capture student progress (light weight). For example year-to-year improvement in the completion ratio, defined as the ratio of degrees granted to full-time enrolled undergraduates. 	
<p>NSC:</p> <ul style="list-style-type: none"> • Metric for the production of Associates and Bachelor's degrees (medium weight).⁸ • Metric for the production of graduates in STEM and allied health fields (additional medium weight). • Metric for the production of associate and bachelors degrees in targeted workforce development sectors (additional medium weight, but no double counting of STEM and allied health graduates). • Metric that captures improvement in graduation rates for associate and bachelor's degrees (heavy weight), for example year-to-year improvement in 3 and 6-year graduation rates as defined by IPEDS. • Metric that captures at-risk student progression (medium weight). For example, total number of Pell-eligible freshman that achieve 30 cumulative college-level credit hours in the reporting year. • Metric that captures progress of remedial students. (medium weight).⁹ 	

⁷ As defined in the NSHE alternative proposed model, although an alternative approach could measure annual percentage growth in degrees granted.

⁸ As defined in the NSHE alternative proposed model, although an alternative approach could measure annual percentage growth in degrees granted

⁹ As defined in the NSHE alternative proposed model.

2-Year colleges:

- Metric for the production of associates degrees (medium weight).¹⁰
- Metric for the production of certificates (light weight).
- Metric for the production of transfer students with 24 student credit hours (medium weight).¹¹
- Metric for the production of associate degrees in STEM and allied health fields (additional medium weight).
- Metric for the production of certificates and associates degrees in targeted workforce development sectors (additional medium weight, but no double counting of STEM and allied health graduates).
- Metric that captures improvement in graduation rates for associate's degrees (heavy weight), for example year-to-year improvement in 3-year graduation rates as defined by IPEDS.
- Metric that captures at-risk student progression (medium weight). For example, total number of Pell-eligible freshman that achieve 30 cumulative college-level credit hours in the reporting year.
- Metric that captures progress of remedial students. (medium weight).¹²

¹⁰ As defined in the NSHE alternative proposed model, although an alternative approach could measure annual percentage growth in degrees granted

¹¹ As defined in the NSHE alternative proposed model.

¹² As defined in the NSHE alternative proposed model, at-risk students defined by Pell eligibility.

States' methods for funding higher education

States' determination of funding levels for higher education varies from state to state, and in some cases within states, in three major ways. First, more than half of the states use a funding formula to calculate funding levels for each institution. Generally, as we show below, these formulas are driven by student enrollment. Recently, these formulas have not been fully funded in many states, and so state appropriations are only a fraction of what the funding formula recommends. Second, a few states fund simply on legislative priorities or policies, which could be based on the amount of funding available or on peer equity with other states for higher education funding. Third (and the most popular non-formula method), the higher education appropriation or funding request is based on the previous year's appropriation (the base) plus some enhancement or cut, which may be formally or informally based on enrollment. However, some states, such as New Mexico, are allocating new money (the enhancement) via a performance-based formula. Indiana allocated cuts based on performance in the past year.

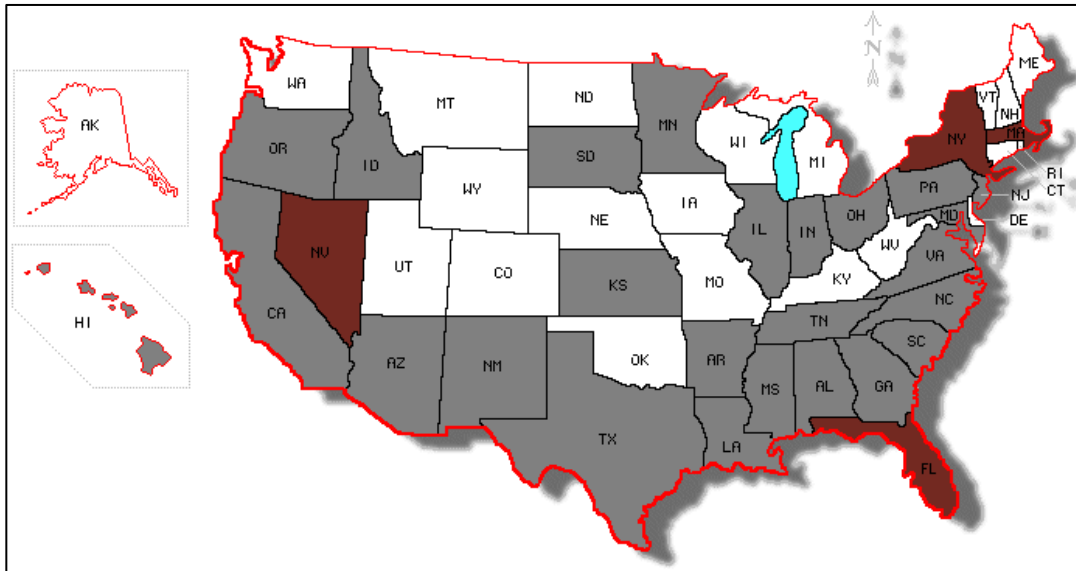
States that use a formula for higher education funding

More than half of all states determine funding through a formula as shown in Table 1 and Figure 1. A few states such as Nevada, Florida, and New York have used funding formulas in the past, but have abandoned the formulas during fiscal downturns. These formulas are presented in the tables below since current funding methods are usually based on old formula allocations. These state formulas are marked as not being in use.

Table 1. States that use or have used formulas to fund their higher education systems

States currently using formulas		State that have recently used formulas, but have dropped them.
Alabama	New Jersey (2-year institutions only)	Florida (4 year)
Arizona	New Mexico (for new funding only)	Massachusetts
Arkansas	New York (2-year only)	New York (4 year)
California (CSU, CCC)	North Carolina	Nevada
Georgia	Ohio	
Hawai'i (2-year institutions only)	Oregon	
Idaho	Pennsylvania	
Illinois (2-year institutions only)	South Carolina	
Indiana	South Dakota (Federally-funded technical schools)	
Kansas (2-year institutions only)	Tennessee	
Louisiana	Texas	
Maryland (Regional Higher Education Centers only)	Virginia	
Minnesota		
Mississippi		

Figure 1. States that use formulas. The states shaded grey use formulas, while the states shaded brown have used formulas in the recent past.



Components of funding formulas

The complexity of funding formulas varies widely from state to state. Virginia, for example, has a very complex set of formulas for each of their different types of institutions, while Arizona uses a simple formula based solely on full-time equivalent (FTE) students. Every state that uses a formula also utilizes non-formula appropriations to fund everything from operations and maintenance to special programs to entire schools.

State funding formulas consist of a subset of the following list of ten budgetary functional areas:

- Instruction
- Remedial Instruction
- O&M/Physical Plant
- Academic Support
- Library Support
- Student Services
- Institutional Support
- Public Service

There are slight variations in how each state specifically defines each function, but this list reflects the most commonly used general definitions. Every state with a formula has an instruction component plus a plant and maintenance category, except Arizona, which only funds instruction via its formula and funds physical plant operations and maintenance through a non-formula appropriation. Most state formulas only contain a fraction of the list, as shown in Tables 2-11.

Instruction

The formula for instructional support aims to fund activities associated with an institution's instructional program. Every state with a formula funds instructional activities through the formula. This formula accounts for the vast majority of the calculated funding levels. No two states use the same formula and some states use different formulas based on institutional missions. However, two main types of instructional formulas are used, as illustrated in Table 2. One is based on a conversion from FTE enrollment to FTE faculty multiplied by a salary rate. The other is based on student credit hours that are then multiplied by a cost and program level weight and a rate or an inclusive cost matrix. The latter type of formula is also used as a performance-based funding mechanism where, instead of enrolled student credit hours, completed student credit hours are used.

Table 2. States that include an instructional budgetary component in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Instruction	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Alabama	Community Colleges	Yes	X	enrollment
Alabama	Technical Colleges	Yes	X	enrollment
Arizona	Senior Institutions	Yes	X	credit hours
Arkansas	2 and 4-year Institutions	Yes	X	credit hours
California	UC ¹	To be determined, but likely ¹		
California	CalState	Yes	X	enrollment
California	CCC ²	Yes		
Florida	Senior Institutions	No	X	enrollment
Florida	Community Colleges	Yes	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Hawai'i	Community Colleges ³	Yes		
Idaho	2 and 4-year Institutions	Yes	X	enrollment
Illinois	Community Colleges	Yes	X	credit hours
Indiana	2 and 4-year Institutions	Yes	X	Enrollment + credit
Louisiana	2 and 4-year Institutions	Yes	X	completed credit hours
Maryland	Regional Higher Education Centers		X	enrollment
Massachusetts	2 and 4-year Institutions	No	X	enrollment

Minnesota	2 and 4-year Institutions	Yes	X	enrollment
Mississippi	Senior Institutions	Yes	X	enrollment
Mississippi	Community Colleges	Yes		
Montana	Community Colleges	Yes	X	enrollment
New Jersey	Community Colleges	Yes	X	credit hours
New Mexico	2 and 4-year Institutions	Yes (new money)	X	credit hours
New York	Community Colleges ⁴	Yes		
North Carolina	Senior Institutions	Yes	X	credit hours
North Carolina	Community Colleges	Yes	X	enrollment
Ohio	University Main Campuses	Yes	X	completed courses
Ohio	University Regional Campuses	Yes	X	completed courses
Ohio	Community and Technical Colleges	Yes	X	completed courses
Oregon	Senior Institutions	Yes	X	enrollment
Pennsylvania	Senior Institutions	Yes	X	enrollment
South Carolina	Senior Institutions	Yes	X	enrollment
South Dakota	Federally funded Technical Schools	Yes	X	enrollment
Texas	General Academic Institutions	Yes	X	credit hours
Texas	Health-Related Institutions	Yes	X	enrollment
Texas	Community Colleges	Yes	X	contact hours
Texas	Vocational & Technical Schools	Yes	X	contact hours
Virginia	2 and 4-year Institutions	Yes	X	enrollment
West Virginia	2 and 4-year Institutions	Proposed	X	credit hours
¹ See California narrative for discussion of UC funding.				
² See California narrative for discussion of CCC funding.				
³ See Hawai'i narrative for discussion of Hawai'i community college funding formula.				
⁴ See New York narrative for a description of the NY CC formula.				

Enrolled credit hours → FTE students → Faculty positions

Arizona, Nevada under its current formula, and Virginia are examples of states that transform student enrollment hours into FTE faculty positions through the use of FTE student enrollments to faculty ratios. A FTE student is defined in Arizona as 15 credit hours for lower division classes,

12 credit hours for upper division classes, and 10 credit hours for graduate classes. In Virginia, the formula defines an FTE as all of the students in full-time standing (taking 12 or more credit hours) plus one-third of the part-time students.¹³ In 1999, the Nevada Legislature Committee to Study the Funding of Higher Education recommended a change from the previous definition of a FTE being defined at 30 student credit hours per year for undergraduate students and 16 credit hours per year for graduate student. The recommendation was to differentiate the graduate student hours into a doctoral level student FTE equaling 18 student credit hours and a master's level student FTE equaling 24 student credit hours. The Nevada colleges were directed to use 30 student credit hours as the definition of an FTE for both lower and upper division credit hours.

Once FTE are calculated, these schools use a ratio to calculate the number of faculty positions. The transformation is simple in Arizona, which funds a faculty position for every 22 FTE students. It is more complicated in Virginia and Nevada, which have different FTE students to faculty position ratios for different disciplines and division levels, which creates a 2 dimensional matrix. Nevada's are listed in Table 3. The Virginia ratio matrix list out specific disciplines instead of using categories such as low cost like Nevada.

Table 3. Student Faculty Ratios recommended by Recommended Student Faculty Ratios.¹⁴

Recommended Student Faculty Ratios for the Universities				
	<u>Lower Division</u>	<u>Upper Division</u>	<u>Masters</u>	
	<u>Doctoral</u>			
Clinical	8	8	8	8
High Cost	18	13	10	8
Medium Cost	21	16	13	8
Low Cost	26	22	16	8

Recommended Student Faculty Ratios for Nevada State College			
	<u>Lower Division</u>	<u>Upper Division</u>	<u>Masters</u>
Clinical	8	8	8
High Cost	18	15	12
Medium Cost	21	18	15
Low Cost	26	24	18

Recommended Student Faculty Ratios for remaining College				
	TMCC		GBC	GBC
			Lower	Upper
<u>Discipline</u>	<u>& CCSN</u>	<u>WNCC</u>	<u>Division</u>	<u>Division</u>
High Cost Programs	14	12	12	12
Medium Cost Programs	21	21	21	16
Low Cost Programs	26	26	23	22

¹³ State Council of Higher Education For Virginia. *Condition of Higher Education Funding in Virginia*. May 2003. P. 9

¹⁴ Page 41, Bulletin 01-4 the Nevada Committee to Study the Funding of Higher Education, 1999

Once FTEs are calculated, the faculty positions are funded at a set amount depending on the state and may cover only salaries or the sum of salaries, employee-related expenses, and operations. Virginia's rate is the average faculty salary. Alabama's rate is the estimated National Association of State Universities and Land-Grant Colleges regional general studies average salary for doctoral and regional institutions.¹⁵ Nevada funds each faculty position based on a salary schedule. In addition, some state formulas add funding for an additional support position with a specific number of new faculty positions funded. For example, Nevada adds the cost of a support position with every five new faculty members and Arizona's formula adds funding for 0.75 support positions with each new faculty member.

Student credit hours x cost matrix

Other state formulas, including those used in Texas and the NSHE proposed funding formula, determines support levels for instruction through the use of student credit hours multiplied by a cost matrix. Most states that use this type of instructional formula used enrolled student credit hours. Tennessee and Ohio use successfully completed student credit hours, while Louisiana and the NSHE proposed alternative formula uses all completed credit hours (including credit hours completed with a grade of F).

The formulation of a cost matrix differs from state to state. Texas's program and level weights are based on an aggregation of actual costs based on institutions' annual financial reports. This weighted matrix is multiplied by a single rate. The rate is set by the legislature and is based on available funding. The result is a cost-informed matrix. The NSHE proposed funding formula also uses a cost-informed weighting matrix that is multiplied by a rate based on current state funding; however, the weights are a synthesis of other state's cost matrices. Ohio does not building its funding matrix on available funding, but uses a cost matrix based on previous year's costs as a function of subject codes and course level.

Incentives

Historically, the goals of public higher education institutions have centered on access, interpreted as enrolling as many students as practicable in higher education. It could be said, therefore, that funding formulas based on enrollment, (also known as enrolled student credit hour) such as are these types of instruction formulas, and are the best practice to achieve access and enrollment policy goals. However, if the policy goals include higher graduation rates—and such a goal is now being widely considered by states—then funding mainly on enrollment driven formulas is not a best practice. The low completion rates that plague states are associated with funding based on enrollment. Course completions have been adopted by a few states, but only recently, so the impact of this practice is not yet discernible. However, we may imagine, in principle, that where completion is defined as only those classes completed with a letter grade of D- or above, then this would be a better practice than mere enrollment from the point of view of encouraging higher graduation rates.

¹⁵ Alabama uses faculty productive hours to transform enrolled credit hours to faculty positions.

However, these formulas are also driven by other policy decisions. Faculty-based instructional formulas depend on the salary multiplier used. Some states, such as Alabama, use the average salary at their peer institutions. This is a best practice if the policy goal is to maintain state-to-state peer-equity in the funding of higher education funding, and if the student-to-faculty ratios are comparable with peer states.

Program level and cost matrices can be the best practice to fund according to the actual cost of the course. However, care must be taken in how courses are classified and how cost figures are calculated. Nevada's current formula uses a relatively simple low/medium/high funding level. Other states such as Oregon use a similar funding level matrix, but the matrix is more granular at a discipline level and reflects policy goals through targeted program funding. The NSHE alternative formula uses a complex matrix that is cost informed and gives additional weight to upper and graduate class.

Cost matrices must be used with care. Actual cost matrices are resource intensive to produce, as well as, state and institution dependent. In fact, Ohio and Texas collect the cost information from departments and then divide by student credit hours. One could argue that this process does not reflect the real cost of delivering a course. Though it seems intuitive to fund in this way, costs change frequently and will change more frequently in the future as online delivery of courses becomes mainstream. A cost matrix developed this year may be out of date next year. In addition, a purely cost-based approach does not incentivize alignment with state goals. Also, we note that once funds are allocated or budgeted for an institution, the institutions generally have autonomy over those funds. Therefore, funds allocated toward the "cost" of science class may not actually be used for the science class.

Best practice instruction funding at institutions of higher education may require a move away from cost-based matrices and into a funding matrix weighted according to policy goals to incentivize the funding of specific disciplines that align with state goals.

Remedial Instruction

Some formulas provide for increased funding for remedial instruction, such as Alabama, which weights remedial student credit hours at 115% of standard credit hours. Other states (as listed in Table 4) fund remedial education explicitly. Illinois has a community college specific funding formula that determines remedial education funding levels by student enrollment multiplied by the previous year's cost per instructional unit. Nevada's current formula does not specifically fund remedial instruction differently; however, the Legislature does not pay for remedial education to be taught at the universities. The NSHE proposed funding formula includes a higher weighting in the cost matrix for "basic skills" courses. Generally, enrollment is the primary driver for remedial instruction for two states that explicitly include this category.

Table 4. States that include remedial education explicitly in funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Remedial Instruction	
			Based on formula	Formula driver
Florida	Senior Institutions	No	X	enrollment
Illinois	Community Colleges	Yes	X	credit hours
North Carolina	Community Colleges	Yes	X	enrollment

Operation and Maintenance of Physical Plant

This category includes all expenditures of current operating funds for the operation and maintenance (O&M) of physical plant. It includes expenditures for physical plant administration, utilities, building maintenance, custodial services, landscape and grounds maintenance and repairs and renovations. Most formula states only include this category for their senior institutions and technical colleges (see Table 5), because most community colleges are supported by local revenue. Formulas are based on either actual square feet or calculated square feet needed based on enrollment. Nevada's current formula, like many states, is solely dependent on actual square-footage with weighting due to age of the building. Virginia bases their funding levels on a percentage of instruction budgets; therefore its funding levels are a function of student enrollment. Texas has a complex space prediction model that is based on full-time-student equivalents with consideration of degree level. In addition, Texas has separate formulas that respectively fund research space, libraries, and office space. Some states include utilities into the O&M funding, but recent increases in utility prices have resulted in several states like Texas adding additional supplements. The NSHE proposed formula includes the cost of operations and maintenance in the instructional cost-informed matrix driven by completed student credit hours, except for certain research facilities at the universities that provide no direct support for student instruction.

Funding O&M of the physical plant on simple square feet measures favors institutions with many buildings with no regards to building usage, while formulas based on enrollment (such as Virginia and Texas) result in O&M funding being tied to the number of students served. Though it seems unlikely that an institution would regard constructing a building as the most straightforward method to increase its state allocation, funding on simple square feet does reward institutions with more buildings regardless of the number of students they serve. However, if the upkeep of buildings with no educational use is not paid for by the state, this may incentivize institutions to sell or rent out their extra space. In addition, it may also incentivize institutions to be more efficient in the usage of space by offering weekend or evening classes. The best practice to incentivize efficient use of space is to fund based on educational usage. Building and maintaining structures is not a higher education policy goal.

Table 5. States that employ a budgetary component of Operations and Maintenance (O&M) of the Physical Plant.

State	Type of Institution	Formula currently in use, or will definitely be implemented	O&M/Physical Plant	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	square footage; cost
Arkansas	2 and 4-year Institutions	Yes	X	square footage
Florida	Community Colleges	Yes	X	square footage; cost; enrollment
Georgia	2 and 4-year Institutions	Yes	X	square footage
Illinois	Community Colleges	Yes	X	square footage
Louisiana	2 and 4-year Institutions	Yes	X	square footage
Massachusetts	2 and 4-year Institutions	No	X	square footage; cost; enrollment
Minnesota	2 and 4-year Institutions	Yes	X	square footage
Mississippi	Senior Institutions	Yes	X	square footage
North Carolina	Senior Institutions	Yes	X	credit hours
Ohio	University Regional Campuses	Yes	X	square footage
Pennsylvania	Senior Institutions	Yes	X	square footage; replacement value
South Carolina	Senior Institutions	Yes	X	costs; building values; type of construction
Texas	General Academic Institutions	Yes	X	square footage
Texas	Health-Related Institutions	Yes	X	square footage
Texas	Vocational & Technical Schools	Yes	X	square footage
Virginia	2 and 4-year Institutions	Yes	X	enrollment

Academic Support

Some funding formulas include a funding category for the support of the institution's primary mission. Many states include library costs under this category, but some do not. States that employ an academic support category determine the funding level as a specific percentage of the instructional funding level. Therefore, enrollment is the primary driver for academic support formula components for states that include this category, as shown in Table 6. The percentage varies from state to state. Nevada's current formula for academic support is based partly on the number of FTE faculty members and staff members, number of library volumes, and the instruction budget. In particular, the current formula funds community colleges at 22% of the instructional budgets except for Great Basin College, which is funded at 30% of the first \$7.5 million of the calculated instructional budget, and 25% of any calculated instructional budget over \$7.5 million. Therefore, all of these methods result in the academic support funding level being driven by enrollment, except for Louisiana whose instructional formula is driven by course completion (though as failing grades are funded, it is basically enrollment).

Table 6. States that employ academic support budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Academic Support	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Florida	Senior Institutions	No	X	enrollment
Florida	Community Colleges	Yes	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Louisiana	2 and 4-year Institutions	Yes	X	completed credit hours
Massachusetts	2 and 4-year Institutions	No	X	enrollment
Minnesota	2 and 4-year Institutions	Yes	X	enrollment
North Carolina	Senior Institutions	Yes	X	credit hours
Pennsylvania	Senior Institutions	Yes	X	enrollment
Virginia	2 and 4-year Institutions	Yes	X	enrollment

Library Support

As mentioned above, many states fund library support through academic support. A few states determine funding specifically for library services, as listed in Table 7. These formulas are based on headcount or as a percentage of instructional budgets like academic support. Nevada's current formula funds library support within its academic support formula. Basically, the formula calculates a specific number of volumes per student, and then funds a specific number of staff positions based on the number of volumes. Therefore, enrollment is the primary driver for the library support funding formula component for states that include the category.

Table 7. States that employ a separate library support budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Library Support	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Arkansas	2 and 4-year Institutions	Yes	X	credit hours
Florida	Senior Institutions	No	X	enrollment
Florida	Community Colleges	Yes	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Minnesota	2 and 4-year Institutions	Yes	X	enrollment
North Carolina	Senior Institutions	Yes	X	credit hours
North Carolina	Community Colleges	Yes	X	enrollment
Texas	General Academic Institutions	Yes	X	credit hours
Texas	Health-Related Institutions	Yes	X	enrollment

Student Services

This category includes funds expended for offices of admissions and registrars and those activities whose primary purpose is to contribute to the student's emotional and physical well-being and to his or her intellectual, cultural, and social development outside the context of the formal instruction program. It includes expenditures for student activities, cultural events, student newspaper, intramural athletics, student organizations, intercollegiate athletics, student organizations, intercollegiate athletics, counseling and career guidance, and student aid administration.¹⁶ As with academic support, states that employ this category in their funding formula calculate funding levels either as a percentage of instructional cost (i.e. Georgia), on headcount, or enrollment (i.e. Alabama and Virginia), as listed in Table 8. Nevada's current formula for student services support is based on combined headcount and FTE enrollment; however, it does provide more money per FTE for the smaller institutions due to economies of scale for the larger institutions. NSHE's proposed formula also includes a small institution factor to cover fixed administration costs. This factor is driven by the number of student credit hours. Generally, enrollment is the primary driver for student services for states that include the category. It is a best practice to fund student services based on actual enrollment since student needs are not dependent on program, discipline level, or hours completed.

¹⁶ As defined by the National Association of College and University Business Officers

Table 8. States that employ a student services budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Student Services	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Florida	Senior Institutions	No	X	enrollment
Florida	Community Colleges	Yes	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Massachusetts	2 and 4-year Institutions	No	X	enrollment
North Carolina	Senior Institutions	Yes	X	credit hours
Pennsylvania	Senior Institutions	Yes	X	enrollment
Virginia	2 and 4-year Institutions	Yes	X	enrollment

Institutional Support

This funding category supports central, executive level activities concerned with management and long-range planning of the entire institution such as the president's office, fiscal operations, logistical activities including procurement, storeroom, safety, security, printing support services to faculty & staff and activities concerned with community and alumni relations (i.e., development and fund raising). Georgia, North Carolina, Pennsylvania, and Virginia include institutional support in all their institution's funding formulas, while Florida includes it in their community college funding formula, as listed in Table 9. Like many of the other components, this category is funded at a specific percentage of instructional support. However, North Carolina funds institutional support at cost. Nevada's current funding formula funds institutional support at a specific percentage of operating budget, with the percentage level dependent on total operating budgets. The percentages used elsewhere varies from state to state. Again, enrollment is the primary driver for institutional support for states that include the category. However, each state controls the total amount of the budget by the percentage with which it weights the component.

Public Service

A few state funding formulas allocate money for public service, as listed in Table 10; however, the amount funded is a very low percentage of the total budget and is usually based on a percentage of the instructional budget. Nevada's current funding formula or NSHE's proposed formula calculates funding for public service.

Table 9. States that employ an institutional support budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Institutional Support	
			Based on formula	Formula driver
Florida	Community Colleges	Yes	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Massachusetts	2 and 4-year Institutions	No	X	enrollment
North Carolina	Senior Institutions	Yes	X	credit hours
North Carolina	Community Colleges	Yes	X	cost
Pennsylvania	Senior Institutions	Yes	X	enrollment
Virginia	2 and 4-year Institutions	Yes	X	enrollment

Table 10. States that employ a public service budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Public Service	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Arkansas	2 and 4-year Institutions	Yes	X	credit hours
Florida	Senior Institutions	No	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Minnesota	2 and 4-year Institutions	Yes	X	enrollment
South Carolina	Senior Institutions	Yes	X	30% of previous FY sponsored public service and non-general fund public service expenditures

Scholarship

No states currently have a budgetary function in their funding formula for determining the funding levels for scholarship. Neither Nevada's current funding formula or NSHE's proposed formula calculates funding for Scholarship.

Research

Some state formulas include a research component, as listed in Table 11. This category supports research at institutions by adding a small percentage of the instructional budget to the total calculation. For example, Alabama calculates their research component as 2% of the sum of estimated cost of instruction, operating expenses, and academic support. Nevada's current funding formula allocates 25% of the campuses' indirect cost recovery collection as a revenue source for the operating budget. NSHE's proposed funding allocation model weights upper-division and graduate student credit hours at the universities by 10% more to support research activities at those institutions.

Table 11. States that employ a research budgetary function in their funding formula.

State	Type of Institution	Formula currently in use, or will definitely be implemented	Research	
			Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment
Arkansas	2 and 4-year Institutions	Yes	X	credit hours
Florida	Senior Institutions	No	X	enrollment
Georgia	2 and 4-year Institutions	Yes	X	credit hours
Massachusetts	2 and 4-year Institutions	No	X	enrollment
Minnesota	2 and 4-year Institutions	Yes	X	enrollment
South Carolina	Senior Institutions	Yes	X	30% of previous FY sponsored research expenditures
Texas	Health-Related Institutions	Yes	X	research expenditures

Narratives of states that use a formula for higher education funding

Alabama

State funds are budgeted for Alabama schools through both formula and non-formula mechanisms. Senior institutions and two-year institutions use different sets of formulas.

For senior institutions, Alabama's formula calculation for instruction and operating expenses is a function of faculty-to-student ratios based on enrolled student credit hours. It assumes a student ratio of 1:26 for doctoral institutions and 1:24 for regional institutions. The number of faculty is multiplied by a constant that reflects department operating expenses and the average salary for doctoral and regional institutions as calculated by the National Association of State Universities and Land-grant Colleges. Remedial credit hours receive an additional 15% increment. Academic Support is budgeted at 5% of the estimated cost of instruction and operating expenses. Research is budgeted at 2% of the sum of estimated cost of instruction, operating expenses and academic support. Public Service is budgeted at 2% of the sum of the estimated cost of instruction and operating expenses and academic support. Library Support is based on actual unweighted semester hours, less military science, times a cost factor that depends on degree level (undergraduate, master, doctoral, law). General Administration & Student Services support is based on headcount enrollment, with increase per head support for institutions with less than 4,000 students. Physical Plant and Custodial Services is funded by gross square feet multiplied by cost factor. General Institutional Support is based on 14% of the sum of instruction, academic support, research, public service, library support, general institutional support and student services, and physical plant and custodial services. The Utilities O&M Allowance is based on consumption rates for heating, electricity, and other utilities and gross square educational and general floor area. From this sum for each institution a tuition adjustment is removed for each institution. A weighted average credit charge is calculated using tuition and required fee level and three-year average unweighted credit hours. Ninety percent of that rate multiplied by the three-year average of unweighted credit hours is the tuition deduction for all institutions.

Two-year colleges are funded per FTE student. For community colleges, the three-year average fall FTE enrollment is multiplied by the average funding rate per FTE of the Southern Regional Education Board. Technical College funding levels are calculated by using a 15:1 student-to-faculty ratio and average fall FTE enrollment and multiplying the resulting FTE faculty positions by the average 9-month salary for technical college faculty. A tuition adjustment is then applied.

Additionally, Alabama uses a number of non-formula funding mechanisms. Doctoral institutions receive an additional 8% and non-doctoral institutions received an additional 4% of the amount they receive from the above calculation for research. All four-year institutions receive 8% of instructional cost for Public Service. In addition, a Facilities Renewal Allowance is calculated from a detailed formula based on the volume of physical space, construction, age and use (office, classroom, lab, etc.). Nationally estimated engineering rates for renovation and replacement are used to determine the costs factors.¹⁷

¹⁷ Alabama Commission on Higher Education. *Consolidated Budget Recommendation for Fiscal Year 2012-2013 Section C*. Accessed 21 May 2012. www.ache.alabama.gov/CBR2012/Index.pdf.

Arizona

Arizona's higher education funding is based on the so-called "22 to 1 Formula," which stipulates adding or subtracting one faculty position for every increase or decrease of 22 FTE students; additionally, 0.75 staff positions are added or subtracted for every 1 faculty position. FTE is defined differently across divisions: in the undergraduate lower division courses one FTE = 15 semester credit hours (SCH) attempted; in undergraduate upper division courses one FTE = 12 SCH attempted; and in graduate courses one FTE = 10 SCH attempted. This formula is used to cover enrollment growth and funding for related expenses including salaries, employee-related expenses and operations.

Several non-formula items, including academic support, student services, research, institutional support, public service, general institutional support, scholarship funds and auxiliary enterprises are all allocated by the individual institution and submitted to the board for approval.

Arkansas

Arkansas is implementing a performance based funding model beginning in fiscal year (FY) 2013-14. Funding for this mechanism will be phased in over a five-year period: for 2013-14 5% of funding will be performance based, with the percentage increasing every year until 2017-18, when performance based funding will reach its target of 25% of total funding. The performance-based model is required by statute to consider at the least: course completion, degree completion, critical needs shortage areas, minority students, economically disadvantaged students, and non-traditional students.

Arkansas' non-performance based funding component uses six SCH functions, one square footage function, and special-mission functions. Teaching salaries are calculated using a matrix containing four course categories and three instructional levels. Other instructional costs are then calculated as 45% of the institution's teaching salaries; library costs, as 11% of the sum of the institution's teaching salaries and other instructional costs; general institutional support as 54% of the sum of the institution's teaching salaries and other instructional costs; research, as the sum of 5% of undergraduate 25% of graduate and 50% of doctoral teaching salaries; and public service as 3% of the institution's teaching salaries. Facilities maintenance and operations funding is based on square footage, multiplied by a funding factor determined every biennium by the Arkansas Higher Education Coordinating Board (AHEDCB) based on institutional spending in recent years.

Institutions may receive funding for one or both special missions, the traditional minority mission and the land grant mission. Institutions with a traditional minority mission receive an additional 15% for SCH or FTE-based portions of the formula. Land grant institutions receive an additional 10% of teaching salaries. Additional diseconomy of scale funding is provided for universities with FTE under 3,500, with the method of calculation determined by AHEDCB in consultation with the presidents and chancellors of the universities.

California

California has three separate systems of higher education: the University of California (UC), California State University (CSU), and the California Community Colleges (CCC). Each has a separate funding procedure.

Since 1993 CSU has used a formula based on FTE enrollment, where one FTE = 15 semester units. This is used to create a “base” budget for instruction, which may change from year to year due to FTE targets, faculty salary requirements and program needs. Academic support, student services, institutional support, and plant operations are normally treated as “fixed” budgets, and adjusted only in special situations. Operating expenses have in the past been tied to FTE enrollment, but recent reductions have not allowed this budget to grow with the enrollment target.

CCC funding is governed by Proposition 98, which sets K-14 funding in the state. This provides three formulas or “tests,” one or more of which must be used to set funding levels:

- Test 1—Share of General Fund. Provides 39% of General Fund revenues.
- Test 2—Growth in Per Capita Personal Income. Increases prior-year funding by growth in attendance and per capita personal income.
- Test 3—Growth in General Fund Revenues. Increases prior-year funding by growth in attendance and per capita General Fund revenues.¹⁸

Which test is used depends on the state’s economic performance and the availability of General Fund revenues. Test 1 was last used in 1988-89; Test 2 is normally used in years when General Fund revenues have grown; and Test 3 is usually applied when General Fund revenues have decreased or have shown only slow growth.

The California Legislature may restrict funds allocated under Proposition 98 if it so wishes. It may also, with a two-thirds vote, suspend Proposition 98 and provide any level of K-14 funding it wishes.

Florida

Florida has both a State University System, which governs senior institutions, and a Division of Florida Colleges, which is responsible for community colleges. Funding mechanisms differ for each.

The State University System prepares a budget which it submits to the Governor and the Florida Legislature. The Legislature then allocates funds to the system itself (not individual institutions). In 2004 Florida established a formula for the State University System which, although it did not change universities’ existing base budgets, was designed to support university programs by calculating needs by level (lower, upper, Grad I, Grad II and Grad III) adjusted by three university groups. It included components for research, public support, library staffing, university support, student financial aid, student services, academic advising, tuition waivers, remedial education, library resources, offsetting inflation, technology support/resources, branch campuses, regional campuses, the University of Florida’s Institute of Food and Agricultural Sciences (IFAS), and

¹⁸ Legislative Analyst's Office. (2005). *Proposition 98 Primer*.
http://www.lao.ca.gov/2005/prop_98_primer/prop_98_primer_020805.htm

health sciences. However, it has not been used since FY 2007-08 due to the decline in available state revenue.

An older performance-based funding formula was based on factors including overall degree completion and degree completion and employment of at-risk (defined as racial/ethnic minorities, non-native English speakers and disabled) students. This provision was dropped for senior institutions in 1997. However, the Board of Governors has formed a working group which is expected to make recommendations for a new performance-based funding formula in the fall of 2012.

The performance measures dropped by senior institutions in 1997 continue in effect for community colleges; 1-2% of state funding for the Division of Florida Colleges is tied to these goals. Community colleges must submit performance-based program budget, and good performance is rewarded by extra funding from the state, added to the existing base budget.

Georgia

Georgia has used a formula based funding system since 1963, generally based on enrollment growth. The 2013 budget divides a \$3.7 billion allocation as follows:

- Direct Instruction (based on enrollment) – 35.5%
- Research – 8.7%
- Academic and Institutional Support – 20.2%
- Fringe Benefits – 22.5%
- Physical Plant and Utilities – 10.3%
- Public Service/Continuing Education – 1.1%
- Technology – 1.7%¹⁹

Major Repairs and Rehabilitation are funded outside the normal appropriations by General Obligation Bonds.

The Higher Education Funding Commission is now creating new performance based formula, and is expected to make its recommendations in December of 2012.

Idaho

Idaho starts the budgeting process by considering the prior year's funding and land grant endowment receipts. Each institution receives an amount equal to the previous year's base funding, and then adjustments are made to cover changes in compensation, benefits, enrollment growth and new programs. Programs are assigned to one of four groups, each with different weights by category and level. An Enrollment Workload Adjustment is calculated for each institution as follows:

Step 1: $(\text{total base budget} \times 0.67) / 3\text{-year moving average of previous year's total credit hours weighted by program} = \text{amount per credit hour}$

Step 2: $(\text{amount per credit hour}) \times \text{change from previous (that is, from last year's calculations)} / 3\text{-year moving average} = \text{adjustment}$

¹⁹ University System of Georgia Funding Formula Overview November 2011.
http://www.usg.edu/fiscal_affairs/documents/Consolidated_Formula_Presentation_-_November_Board_-_Final.pdf

Illinois

Community colleges are funded by grants, principally Base Operating Grants and Equalization Grants. Base Operating Grants are driven by credit hours in six categories (Baccalaureate, Business, Technical, Health, Remedial, and Adult Education), and by square footage for operations and maintenance. When the state cannot meet the full funding target, the credit hour rate is adjusted downwards. Equalization Grants are designed to make sure that community colleges operating in districts with a limited tax base have the funds necessary to support basic operations. In recent years, Illinois has not been able to fully fund either the Base Operating Grant or the Equalization Grant.

After the Higher Education Finance Commission's 2010 report discussing performance-based funding as an option for the state, the Illinois House and Senate passed performance-based legislation in 2011, with the goal of introducing performance-based budgeting by fiscal year 2013.

Indiana

Indiana's base formula is driven by enrollment and accounts for the bulk of all funding provided to each college. Notably, enrollment numbers have been based on enrollment on the last day of class. In 2003, Indiana added an incentive fund to reward the state's research universities for federal research funds awarded. In 2007, performance-based funding was expanded to include all institutions. The formula provides incentives for an increase in the number of degrees, increase in on-time graduation rates, increase in transfer rates from 2-year colleges to 4-year colleges, types of degrees, degree completion by low-income students, and dual credit hours, as well as research grant incentives. Performance funding was implemented within the increase in funding given to the system of higher education. The base funding based on enrollment remained intact in 2007; however, in 2009 10% of the enrollment-based funding was shifted to successfully completed credit hours with a grade of at least a D-. In 2012, the Indiana state budget was cut and performance criteria were used to distribute budget reductions. Institutions with better performance and lower costs received smaller cuts than those with high costs and low completion rates.²⁰ In 2014, the enrollment component will shift to 100% completed credit hours. For the 2011-12 budget, Indiana allocated 5% (\$61.4 million) to fund its performance pool. The allocation of funds emphasizes degree production with 60% of the pool awarded for degree completion.²¹ Institutions with positive performance results receive extra funding; however institutions with negative performance results are not penalized.

²⁰ Lederman, Doug. "Performance (De-)Funding." *Inside Higher Edu*. 28 Dec 2009. <http://www.insidehighered.com/news/2009/12/28/indiana> (accessed 1 May 2012).

²¹ HCM Strategists. "Performance Funding in Indiana: An Analysis of Lessons from the Research and Other State Models." Report to Indiana's Commission on Higher Education. 8 August 2011. http://www.hcmstrategists.com/content/Indiana_PFReport2_8.2.11.pdf (accessed 8 May 2012); Bautsch, Brenda and Ronald Williams. "Recommendation Nine: College Completion." *The College Completion Agenda State Policy Guide*. CollegeBoard Advocacy & Policy Center. 2010. http://completionagenda.collegeboard.org/sites/default/files/reports_pdf/Policy_Rec_Nine.pdf (accessed 2 May 2012)

Louisiana

Louisiana funds all their institutions of higher education using a formula with two components: cost and performance. The cost component, which governs core, general and operations funding, comprises 75% of total funding. This covers student credit hours, faculty, student academic support, administration, and facilities.

The performance component uses metrics aligned with the Louisiana Granting Resources and Autonomy for Diplomas Act (GRAD) act (whose four objectives are student success, articulation and transfer, workforce and economic development, and institutional efficiency and accountability). These include course completion, research, STEM completers, and health completers, and make up the remaining 25% of funding. Institutions sign six-year performance agreements, and those which meet their performance targets are allowed to increase what they charge for tuition, and increase their autonomy.

Cost calculations are based on end of course counts (completion), with the exception of technical colleges, which uses day 14 enrollment. Southern Regional Education Board peer faculty costs by discipline are used to calculate funding per SCH. An academic support factor is added after SCH funding is calculated. An additional \$6.75 per net academic and support square foot is then added for physical plant costs.

Maryland

Maryland higher education funding generally follows a base-plus system. A specific exception to this was the allocation of state funds from FY 2007-2009 to subsidize enrollment growth. Beginning in FY 2014, all Maryland Regional Higher Education Centers (RHECs) will be switching to a performance-based funding model. The formula provides a base allocation of \$200,000 for each center, incentive funding for FTEs, lease funding for those institutions that lease space, and special funding to cover one-time or start-up costs. In 2010, the legislature mandated that total base funding for all RHECs be \$1.75 million in future years.

Massachusetts

Massachusetts in theory funds higher education using a formula based on FTE for Instruction, Academic Support, Student Services, Research and Institutional Support, and on square footage for some physical plant factors. The budget should then be allocated as follows:

- 1) Budget formula requirement – by institution
- 2) Total local revenue – by institution; includes distance & continuing education tuition and all fee revenue
- 3) State support – by institution; based on current year General Appropriation Act
- 4) State-supported fringe benefits – by institution²²

However, this formula has only been implemented during one year since its creation. The Governor has called for the board of trustees of the University of Massachusetts in consultation with the secretary and the board of higher education to create a performance measurement

²² Massachusetts Board of Higher Education. *Notes on FY2011 Formula, Draft* (Word Document).

system, and for the commissioner of higher education in consultation with college presidents to develop a funding formula for community colleges that is based in part on performance.

Minnesota

Minnesota uses a funding formula with the following components: Instruction and Academic Support, Library, Research and Public Service, Enrollment Adjustment, and Facilities. For Instruction and Academic Support, a "band" is calculated with boundaries at 10% above and 10% below the system average for each instructional program. If a program's cost per full-year equivalent (FYE) student is within the band, it will be allocated the same amount of funding as the previous year; if it is above the upper 10% band, funds will be reduced to the level of the upper band; and if it is below the band, funds will be increased to the level of the lower band. The number of FYE in the program multiplied by the amount per FYE that the program comes out above or below the band equals the total program allocation; an institution's total instructional and academic support allocation is the sum of all its program allocations. Institutional base funding plus or minus changes in program cost equal the net adjustment to base instructional expenditures. To improve the stability of funding, since 2006 a three-year rolling average has been used for this component. The Library component equals 3.5% of total operating costs for two-year and 6% for four-year institutions. Research and Public Service combined are allocated 1.17% for two-year and 2.62% for four-year institutions, based on peer comparisons. Facilities Functions are budgeted at \$1.80 per square foot for maintenance and operations and \$1.50 per square foot for repair and replacement. Utilities funding is calculated as the average expenditure over the previous three year, and other funding may be provided for leases, or multiple campus or residential living factors.

Additionally, a tuition off-set is calculated and applied to all components except instruction. According to Minnesota Statute 135A.01, Funding Policy, "It is the policy of the legislature to provide stable funding for public postsecondary institutions and that the state and students share the cost of public postsecondary education. The legislature intends to provide at least 67 percent of the combined revenue from tuition, the university fee at the University of Minnesota, and state general fund appropriations to public postsecondary institutions."

Mississippi

Senior institutions use a funding formula comprising four elements: Instruction and Administration; Predicted Space; Capital Renewal; and Small School Supplement. The sum of these is referred to as the formulated need. The Mississippi Institutions of Higher Learning (IHL) determine the amount required for each university, but as available funds are often less than that required for institutions' recommended allocations, funds are distributed on a pro-rata basis according to each university's percentage of the total formulated need.

Two-year institutions are funded according to the "Mid-level Formula," which fixes community college funding mid-way between that at universities and K-12 schools, calculated as the average of per-student funding.

New Mexico

New Mexico's Higher Education Department (HED) implemented a new funding formula for fiscal year 2013 as required by legislative action in 2011. The new funding formula is used for

calculating workload and funding needs for the budget recommendation submitted to the executive and legislative branches. The State of New Mexico uses three separate funding formulas for research universities, regional or comprehensive universities, and two-year colleges to reflect the mission differentiation of each type of institution. This formula is a base plus model that defines the base as each institution's fiscal year 2012 instruction and general appropriations adjusted for utility costs. Any future increase in budget request will be calculated by a performance formula unique to each type of institution.

New Mexico's formula for research universities is based on completed student credit hours for all courses for which a student received a letter grade, pass-fail grade, incomplete, or audit complete. There is an additional funding factor based upon the total number of undergraduate and graduate degrees and postgraduate certificates awarded by each institution. For fiscal year 2013, this funding factor is 2% of the total cost of generating the degree produced at each institution. Degrees and certificates in STEM fields are an additional funding factor that is funded at 3% of the total cost to produce degrees. The funding formula also includes a factor for at-risk student degrees (defined as students whose expected family contribution would make them eligible for Pell grants). This factor is funded at 3% of the total cost to produce degrees. Currently the interim committee is looking at expanding the formula to include sector-specific formula factors, such as a research factor, a quality factor, a progress factor, and a factor that rewards success of transfer students.

New Mexico's comprehensive universities are regional universities that produce master's degree and bachelor's degrees. A few also produce associate's degrees and certificates. The funding formula is identical to research universities, except that comprehensive universities completed student credit hours also include developmental, remedial, or vocational/technical courses, which research universities do not offer.

Community colleges provide vocational and technical education, general academic preparation leading to associate's degrees and certificates, remedial education, and adult basic education. The community college funding formula includes completed student credit hours, number of degrees and postgraduate certificates awarded, workforce needs, and degrees awarded to at-risk students.²³ HED hopes to add a transfer factor for community colleges in the future so that they may be rewarded when students transfer to 4-year institutions, rather than having their efforts effectively credited to senior institutions.

Additionally, Land Grant Permanent Fund monies may be distributed (only) to four-year and special schools according to statute mechanisms. The distribution mechanism for performance based funding has not yet been determined, although a "hold harmless" clause will be in effect for the first year (only) to ensure that no institution can gain or lose more than 2% of the previous year's funding.

²³ *Educating Tomorrow's Workforce: New Mexico's Higher Education Funding Formula for Fiscal Year 2013*. New Mexico Higher Education Department. 14 Oct. 2011.
http://www.nmsu.edu/~budget/PDF%20Files/HED_Ed_Funding_Formula_FY2013.pdf (accessed 3 May 2012).

New York

New York's two-year colleges have received approximately 40% of operational funding from the State, about 27% from local community and about 33% from student tuitions.²⁴ For the 2011-2012 fiscal year, the statutory formula of full opportunity colleges was determined by choosing the lowest of the following: (1) two-fifths (40%) of the net operating budget of the college, as approved by the State University trustees; (2) two-fifths (40%) of the net operating costs of the college; or (3) the combined figure of (a) the total of the budgeted or actual number (whichever is less) of FTE students enrolled in programs eligible for State financial assistance multiplied by \$2,122 AND (b) up to one-half (50%) of rental costs for physical space. For non-opportunity colleges, the statutory formula was determined by choosing the lowest of the following: (1) one third (33%) of the net operating budget of the college, as approved by the State University trustees; (2) one third (33%) of the net operating costs of the college; or (3) the combined figure of (a) the total of the budgeted or actual number (whichever is less) of FTE students enrolled in programs eligible for State financial assistance multiplied by \$1,516 AND (b) up to one-half (50%) of rental costs for physical space.

North Carolina

Overall, the way that North Carolina determines funding amounts for its 4-year institutions is process-oriented rather than formula-driven. Only the portion corresponding to enrollment changes is driven by a formula called Student Credit Hour (SCH) Funding Model.²⁵ The SCH Funding Model contains five basic components, namely Instructional Salary Costs, Other Academic Costs, Library, General Institutional Support (GIS) and Deductions based on expected tuition revenue. The Salary Costs are calculated by the product of the number of FTE faculty teaching positions, categorized by a 12-cell matrix, multiplied by the budgeted average teaching salary. This number is then multiplied by an estimated instructional cost factor rate of 45% to determine funding for other instructional costs including fringe benefits, salaries of faculty members and other personnel, office operating expenses, travel, equipment and so on. The combined amount of salary components and other instructional costs, called the Total Academic Requirements, forms the basis for calculating the remaining components. For example, library funding is determined by multiplying the Total Academic Requirements by the library-funding factor of 11.48%. The GIS, designed to calculate funding for academic support services, student services, institutional support, campus administration, and physical plant operations, is given a factor of 54.05%, which is then multiplied by the total academic requirements to determine a funding amount.

Each two-year institution in North Carolina receives an instructional fixed-base allocation (approximately \$373,000 in FY2011-12) from the State Board, in addition to the remainder of funds on a weighted FTE budget (average FTE enrollment of the past three years) categorized into three funding tiers and the type of discipline.²⁶ Each college is allocated \$3,608 for each FTE in Tier 1 courses and \$3,137 for each FTE in Tier 2 courses. For continuing education (occupational extension) instruction, a base allocation of \$62,137 is given to each college along with \$3,137 for each FTE in Tier 2 courses and \$2,666 for each FTE in Tier 3 courses. The

²⁴ The State University of New York. *Assembly Standing Committee on Higher Education Public Hearing*. Accessed 10 May 2012. <http://www.suny.edu/govtRelations/state/pdf/Matonak.pdf>

²⁵ University of North Carolina (2010). *Semester Credit Hour Enrollment Change Funding Model*. Accessed 12 May, 2012. http://www.wcu.edu/WebFiles/PDFs/Enrollment_Manual_Oct_2010.pdf

²⁶ North Carolina Community Colleges (2011). *State Aid Allocations and Budget Policies FY 2011-12*. Accessed 12 May 2012.

instructional resources allotment provides funds to each college for library materials through a base allocation of \$25,000 and the remaining balance is based on each college's weighted library FTE (L/FTE). The L/FTE is calculated by applying different category weights, as determined by different types of education (such as college transfer and general education FTE, technical education FTE and occupational extension FTE), to the actual FTE of the preceding year, and adding these products to obtain a sum for each college. Colleges also receive \$4.62 per weighted L/FTE above 1,000 L/FTE.

Ohio

Ohio uses a funding formula called the State Share of Instruction (SSI) to calculate its state appropriation for higher education. Ohio has different formulas for different types of campuses: university main campuses, university regional campuses, and community and technical college campuses. The University Main Campus funding model consists of three components: (1) a course completion component, (2) a student success component, and (3) an institutional specific goals and metrics component.²⁷ The steps of calculating the cost component for the University Main Campuses are outlined as follows,

(1) Course Completion Component

- Determine the average cost per FTE for the most recent 6 years through adjusting, normalizing and weighting costs data to calculate the average subsidy eligible FTE.
- Estimate course completions for each campus by subject field and level by multiplying the subsidy eligible FTE values by the course completion rates at each campus in the previous year.
- State share of instruction appropriation is determined by multiplying together the weighted course completion FTE, uniform SSI% and model reimbursement costs.

(2) Student Success Component (aka degree cost)

- Determine the statewide average degree costs
- Determine the number of degrees earned at each University Main Campus for each category of degree and at-risk degrees and calculate the statewide at-risk weight and the Campus Index, the magnitude of the at-risk student population at each campus.
 - Successful completions of undergraduate course are weighted by campus, subject, and level. The student success component consists of degree completion in general, by at-risk students, and in STEM fields. At-risk degrees are defined as degrees earned by students with any of the following characteristics:
 - Age: over 25 at the time of graduation
 - Less than \$2,190 in [annual income] in the last 3 years prior to degree attainment
 - Less than 17 on ACT Exam in either the Math or English

²⁷ Ohio Board of Regents. *State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for FY 2012 and FY 2013 For Use by: University Main Campuses*. Accessed 5 June 2012.

<http://www.ohiohighered.org/sites/default/files/uploads/financial/ssi/HANDBOOK%20UM.pdf>

- Any developmental course at any time before the degree was awarded on any USO campus
 - Race: African American, American Indian, or Hispanic
 - Calculate the degree cost by multiplying together the number of degrees, statewide average cost of degree and the uniform state share of degrees. The weighted degree cost is calculated as number of at-risk degrees times statewide average cost of degrees times the uniform state share of degree times at-risk weight.
- (3) Institutional Specific Goals and Metrics Component
- After receiving an initial set-aside share of funding through the enrollment and student success components of the funding formula, the chancellor redistributes funds based on each institution's relative progress and achievement of its institution specific goals and metrics.

The University Regional Campus funding is allocated entirely based on enrollments and course completions, weighted for at-risk students. The steps to calculate the course completion component for the Regional Campus is similar to that of Main Campus.²⁸

The Community and Technical College funding model consists of the same components and steps as the University Main Campuses, except that only the enrollment component is considered rather than the course completion. The state instruction appropriation for the Community and Technical Colleges is determined by multiplying the eligible FTE, uniform SSI% and model reimbursement costs.²⁹ For community colleges in fiscal year 2012, 7.5% of funding was tied to successful completion of developmental activities, progress from remedial to college-level courses, completion of first 15 credit hours, then 30 credit hours, degree completion, and transfer to 4-year public institutions.³⁰

Oregon

Oregon uses a Resource Allocation Model (RAM) to allocate state fund to Oregon State Universities. The RAM contains two mechanisms: (1) a per-student FTE basis that is funded through a cell matrix, and (2) a targeted program basis. The component of funding driven by enrollment is calculated by multiplying fundable student FTE (Oregon residents enrolled in fall, winter and spring) with funding values identified in 18 cells, which are defined by categorizing the Classification of Instructional Programs (CIP) Code into four levels of instruction. Targeted programs, grouped by functions such as regional university support, engineering, research institutes/programs and center services, are primarily mission-based rather than enrollment-driven, and account for approximately 37% of the state operations funding. For these targeted programs, improved retention and graduation rates, as well as student FTE in high demand

²⁸ Ohio Board of Regents. *State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for FY 2012 and FY 2013 For Use by: University Main Campuses*. Accessed 5 June 2012.

<http://www.ohiohighered.org/sites/default/files/uploads/financial/ssi/HANDBOOK%20UB.pdf>

²⁹ Ohio Board of Regents. *State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for FY 2012 and FY 2013 For Use by: University Main Campuses*. Accessed 5 June 2012.

<http://www.ohiohighered.org/sites/default/files/uploads/financial/ssi/HANDBOOK%20CC.pdf>

³⁰ Ohio Board of Regents. *State Share of Instruction Handbook: Providing the Methodology for Allocating State Share of Instruction Funds for Fiscal Year 2012 and Fiscal Year 2013*. 31 October 2011.

disciplines (e.g., engineering, technology, nursing), are considered as performance factors. In addition, research involving commercial applications, natural resource issues, Oregon's economy, environment and communities, climate changes, veterinary medicine programs and others, is allocated funding under the targeted program category. However, future funding levels for some sponsored research programs will be calculated only on the base year, with adjustments for inflation and legislative adjustments due to the State's insufficient fund.

Pennsylvania

The state of Pennsylvania calculates university costs for the Pennsylvania State System of Higher Education (PASSHE) by taking into consideration instruction, support services, physical plant and adjustment for small universities. Among these factors, Instruction Costs Account For 40% Of The Costs, While Plant, Institutional Support, Academic Support and Student Services account for 19%, 15%, 14% and 10%, respectively. Research and public services each makes up 1% of the total cost share.³¹ Adjustments for small universities are given at a fixed rate depending on the size of enrollment of each school. Instruction costs are identified based on a two-year enrollment average of in-state students, and different costs are associated with the two course disciplines and three course levels. Pennsylvania uses one fixed weight, which is then multiplied by two-year FTE figures, to allocate funding for costs associated with academic support, student services, and institutional support. Plant costs include 2.5% of the Education and General (E&G) facilities replacement value and 1.5% of the infrastructure replacement value, plus a fixed dollar amount per gross square foot. Besides the allocation model, Pennsylvania employs a performance-based model to allocate approximately 9% of the total costs.³² Pennsylvania four-year institutions must choose ten performance measures, consisting of five mandatory and five optional performance indicators, to be evaluated on over a five-year period. The ten performance measures span three main principles, namely student success, access and stewardship. In addition to these three areas, universities can also develop their own indicators, as approved by the Chancellor.³³ For two-year institutions, different funding formulae have been used for different institutions since the 1960s to 2011. The Pennsylvania Commission for Community Colleges has created a task force in 2011 to develop a unified funding formula and a new funding model is currently being developed.

South Carolina

South Carolina utilized to have a 100% performance-based funding formula until 2003. In 2003, the performance-based model was removed due to its complexity and replaced by a non-performance-based method.³⁴ In January 2012, South Carolina announced its plan to reintroduce the performance-based funding model, which takes into account graduations rates, job placement, institutional outcomes in economic development, and services to disadvantaged

³¹ Pennsylvania State System of Higher Education. *Allocation Formula Overview*.

<http://www.passhe.edu/inside/anf/budget/Pages/Allocation-Formula.aspx>

³² Conversation with Lois Johnson, Director of Financial Management at Pennsylvania State System of Higher Education

³³ Pennsylvania State System of Higher Education. *2011-2017 Performance Funding Program*. Accessed 30 April 2012. [http://mansfield.edu/academic-affairs/media/files/PBF%20Conceptual%20Framework%20Document%203-30-12%20Final%20\(4\).pdf](http://mansfield.edu/academic-affairs/media/files/PBF%20Conceptual%20Framework%20Document%203-30-12%20Final%20(4).pdf)

³⁴ Community College Research Center (CCRC). *CCRC Working Paper No. 22, The Political Origins of State-Level Performance Funding for Higher Education*.

students.³⁵ Currently, South Carolina is using the Mission Resource Requirements (MRR) funding model to determine the state fund appropriation for its four-year institutions. The instruction cost is calculated using three-year averages of student credit hours, which are converted to FTEs based on student/faculty ratios. The resulting number of faculty is then multiplied by the regional average salaries for that discipline. The combined value of faculty costs and instructional support represents the total instructional costs. Funds for Research and Public Service are awarded at fixed rates applied to the previous funding level, which ranges from around 25% to 30%. Costs of libraries and student services are determined based on base year expenditure, incorporating an inflation rate (Higher Education Price Index). Physical Plant costs are generated using formulas based on the building values, replacement costs of the Education and General (E&G) buildings, maintenance costs, custodial service/average hourly wage, the E&G square footage of buildings and the total number of acres of regularly maintained areas. Finally, Administration costs associated with non-instructional faculty activities and academic and institutional support are funded at 25% of the total costs for instruction, libraries, student services and physical plants.³⁶

Tennessee

In 2010, the Complete College Tennessee Act requires the development of a new funding formula that emphasized student retention and degree completion. The new funding method has a formula for universities and another formula for community colleges. Each institution has a fixed line item appropriation of 15-18% with the balance of the funding tied to performance metrics. University performance metrics include degree completion, progression metrics, research and service, transfer rates, and a six-year graduation rate. Community college metrics include progression metrics, dual enrollment, degree and certificate completion, job placement, completion of remedial and developmental studies, and workforce training. The Tennessee funding framework allows for different weightings for each institution to reflect the different missions of each institution. Hence, no two institutions have the same weightings.³⁷

To calculate funding levels, outcome data are collected from the statewide student information system, rescaled or normalized if necessary, and weighted according to the institution's mission. The results are then multiplied by SREB average faculty salary amounts, adjustments made for certain fixed cost items, and performance funding added to arrive at the final totals. Distributions are made on a pro-rata basis per institution when the state does not fund 100% of the formula. No base allocation is guaranteed, and all funding must be earned anew each year.

³⁵ Harnisch, Thomas. "Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing. *American Association of State Colleges and Universities: A Higher Education Policy Brief*.

³⁶ South Carolina Commission on Higher Education. *FY 2008-2009 Mission Resource Requirements Funding Model(MRR)*. Accessed 23 May 2012. http://www.che.sc.gov/Finance/Fin/MRRManual/2008-09_MRR_Booklet.pdf

³⁷ Tennessee Higher Education Commission. *Outcome Based Formula Explanation*. Jan. 2011. http://tn.gov/thec/complete_college_tn/ccta_files/outcomes_based_ff/Outcomes_Based_Formula_Explnation.pdf (accessed April 27 2011).

Tennessee's change from a primarily enrollment-driven approach to an output approach has resulted in campuses bring in extra student advisors, increase tutoring and remedial classes, fast-track majors, and develop extra courses between semesters.³⁸

Texas

The Texas system of public higher education encompasses 35 general academic teaching institutions (including law schools), with three new institutions emerging by the end of 2011; 50 community and junior college districts; one technical college system with four main campuses; three lower-division state colleges; and nine health-related institutions, which operate a total of eight state medical schools, three dental schools, two pharmacy schools, and numerous other allied health and nursing units. Formulas are utilized to calculate institution-level allocations for higher education, but do not reflect how the allocation may ultimately be spent, as appropriations to institutions are made in a lump sum. Texas funding formulas are driven principally by enrollment and the actual cost of program delivery; however, they also differentiate teaching costs by tenure and tenure-track professors versus adjunct and graduate student instructors when calculating supplements. Texas has a small performance fund that is distributed outside the formula and only applied to general academic institutions, not community colleges or health-related institutions.

More than half of state appropriations are allocated via an Instruction and Operations formula, Teaching Experience supplements, an Infrastructure formula, and a Small Institution supplement. Instruction and Operations supports faculty salaries, departmental operating expenses, instructional administration, and libraries with the equation described below.

The Texas Legislature sets the program and level weights as well as the rate. The rate is based on available funding, and in 2010-2011 the rate was \$62.19 per weighted semester credit hour. The program and level weights are based on an aggregation of actual costs from institutions' annual financial reports. The semester credit hours are calculated by the number of students enrolled in a class multiplied by the number of credit hour of the class, and then summed over the entire university for a specific base period. For the 2010-2011 biennium the base period covered summer 2008, fall 2008, and spring 2009.

Texas uses a state-wide infrastructure rate ("all other rate") that is augmented by an adjusted utility rate that is calculated for each institution to incorporate different utility costs from institution to institution. The rate is multiplied by square feet measure that is the result of the Coordinating Board's Space Projection Model for Higher Education Institutions in Texas. The model is based on full-time-student equivalents with consideration of degree level (undergraduate, master, doctorate), because Texas states that upper level students require less special or general use space, classrooms, and class labs. Each type of program is allowed a specific amount of square feet per FTSE for each level. For undergraduate space, this amount of space is slightly reduced with every 1,000 FSTE above 15,000. The space funded for libraries is dependent on the collection size, which is dependent on the number of faculty, and number and level of fields. The space funded for research can be calculated two ways. First, an institution can receive funding for certain amount of research space per \$1 million average research

³⁸ Harnisch, Thomas. "Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing." *American Association of State Colleges and Universities: A Higher Education Policy Brief*.

expenditures. Alternatively, an institution can receive funding for a certain amount of research space per FTSE. Funding for office space is also funded by two methods. First, office space can be funded on a per full-time equivalent faculty basis. Alternatively, office space can be funded according to current educational and general expenditures reported by the institution. Support space is funded at 9% of the sum of teaching, library, research, and office space allocations.

Texas funds several non-formula items. Texas provides its small institutions with a small institution supplement of \$750,000 (2010-2011) if enrollments are less than 5,000. In addition, institutions with 5,000-10,000 student enrollments receive a declining proportion of \$750,000 as enrollment figures reach 10,000. Institutions can request appropriation for specific campus-projects. In addition, the Legislature-funded Research Development Fund distributes funds to faculty for individual projects, such as laboratory and equipment upgrades and graduate student tuition. Furthermore, Texas's version of performance-based funding is distributed outside the funding formula through a performance incentive initiative, which distributed \$80 million in fiscal year 2009 for increases in degrees awarded, with special weights given to critical fields and at-risk students.

Appropriations to Texas's health-related institutions are calculated primarily through instruction and operations support, infrastructure support, and research enhancement as well as mission-specific formulas. The rate for the 2010-2011 biennium is \$11,129. Programs with enrollments less than 200 receive a small campus supplement.

Infrastructure is funded using a square footage factor. However, the space model has different rates in addition to including a multi-campus adjustment.

In addition to the research enhancement appropriation, a supplement for graduate medical education is added by multiplying \$6,653 by the number of medical residents per year. The Chest Disease Center and the Cancer Center also receive special per Texas patient supplements. Health-related institutions do not receive any funding tied to performance criteria.

Texas community colleges have local support in addition to state support. State appropriations are funded entirely through a funding formula based on student contact hours. Special supplements are provided to community colleges outside the formula for small institutions and dramatic enrollment factors. No physical plant support is provided by the state. Texas vocational and technical schools are funded in a similar way to community colleges, except that physical plant support is provided by the state per the infrastructure formula of general institutions. Developmental education courses are funded through the instructional allocations.

Only a portion of student-derived revenues is budgeted through the state budgeting process. The statutory tuition rates are set by the legislature and are included in the "general revenue-directed funds" along with some of the student fees. The revenue is transferred from the institutions to the state Treasury. For all institutions besides community colleges, the appropriated student-derived revenues offset the general fund appropriation as determined by Texas' higher education funding formula. Institutions can set tuition higher than the statutory rate, and set aside the difference for specific purposes. Fee and tuition revenues that are set-aside for specific purposes are not counted in the calculation of general appropriation funds. During fiscal year 2009, total student revenues were \$4.7 billion, of which \$3.7 billion (78%) were not deposited into the state Treasury. During fiscal year 2009, statutory tuition revenue

was 32 percent (\$1.0 billion) of \$3.2 billion of tuition revenue statewide. Community college student-derived revenue is considered to be institutional funds and is neither set nor appropriated by the state.³⁹

Though bulk of funding for higher education in Texas is distributed through a funding formula driven by enrollment, in 2007 the Texas Legislature appropriated \$100 million in fiscal year 2009 to establish the Higher Education Performance Incentive Initiative. Eighty million dollars were distributed for increases in degrees awarded with special weights given to critical fields and at-risk students.⁴⁰

Virginia

Virginia uses a funding formula that weights institutions differently according to their mission. Virginia has no set performance-based criteria for funding; however, in exchange for more autonomy institutions must meet performance-based benchmarks dependent on their institutions' individual agreement with the state.

Virginia has used a funding formula called the Base Budget Adequacy Formula since 2000. The formula calculates instructional appropriations using full-time equivalent student enrollment. The student enrollment numbers are transformed into FTE faculty count by the use of student-to-faculty ratios, which differ by discipline and level. Higher class levels have lower student-to-faculty ratios. The resulting FTE faculty positions are multiplied by the average faculty salary to calculate direct instructional costs. Instructional support costs are calculated at 40% of the direct costs. The sum of the direct instructional costs and instructional support result in the total funding level for instructional programs.

Academic Support, Institutional Support, and Student Service Programs are supported at different levels for different institutions to reflect their unique missions. Virginia institutions are classified as research, doctoral, master's/comprehensive, baccalaureate, or two-year. Each type of institution has a different funding multiplier for each program. Academic Support and Institutional Support are calculated by applying a multiplier to the sum of total support, which is mainly based on FTE enrollment, while student services funding is based on a dollar amount per headcount student. Operations and maintenance is also funded at percentage of total instruction, academic support, and student services funding level.⁴¹

As part of the 2000 study on higher education that produced the funding formula, the committee recommended that Virginia adopt a performance-based accountability under institutional performance agreements. Performance-based accountability was never directly calculated within the formula; however, the institutions agreed to comply with their institutional performance agreements in exchange for more autonomy from the state in relation

³⁹ Texas Legislative Budget Board Staff. *Texas State Government Effectiveness and Efficiency: Selected Issues and Recommendations*. Jan 2011. pp. 493-508.

⁴⁰ Texas Legislative Budget Board Staff. *Financing Higher Education in Texas: Legislative Primer*. January 2011.

⁴¹ Virginia Legislature. *Legislature's Joint Subcommittee on Higher Education Funding Policies Recommendations*. 18 Dec 2000.; University of Virginia. *Budget Overview 2010-2011*.; State Council of Higher Education for Virginia. *SCHEV Review of Base Adequacy Funding Guideline Methodologies and Process*. 2007.

to their non-state funds.⁴² In 2010, Virginia's governor instituted the Governor's Commission on Higher Education Reform, Innovation and Investment, which seeks to significantly increase undergraduate degrees as well high need degrees. The commission is currently considering a variety of performance-based funding options.⁴³

In the mid-2000s, the state restructured their higher education policy, which resulted in Virginia public institutions gaining more control over their student derived revenues. Student-derived revenues have to be deposited with the Commonwealth. As long as the institution has been certified by the State Council of Higher Education for Virginia as meeting educational-related performance benchmarks, then the institutions is allowed to hold and invest their tuition revenues, education and general fees, research and sponsored program funds, and all other non-general fund revenues. Funds still have to be deposited, but certified institutions can draw down the sum on the same business day they were deposited.⁴⁴

⁴² Restructured Higher Education Financial and Administrative Operations Act, Chapter 4.10 (§ 23-38.88) of Title 23, VII. *Financial Resource Retention and Management*. Web.

⁴³ Crowder, Melinda and Steven Janosik. "Performance Funding in Virginia Higher Education." *Virginia Issues and Answers: A Public Policy Forum*. Volume 7, Number 2. Pages 25-29. 2001.; State of Virginia. *Higher Education Commission – Mission and Priorities*. <http://www.education.virginia.gov/initiatives/HigherEducation/MissionAndPriorities.cfm> accessed 21 May 2011.

⁴⁴ Restructured Higher Education Financial and Administrative Operations Act, Chapter 4.10 (§ 23-38.88) of Title 23, IX. Disbursement Management.

States that do not use a formula for higher education funding

Less than half of states do not employ a formula to determine funding levels for higher education. These are listed in Table 12. Funding determination methods vary widely from base plus methods to purely political ways of determining allocation, as illustrated in the following state narratives.

Table 12. States that do not use a formula for higher education funding.

Alaska	Michigan	Rhode Island
Colorado	Missouri	South Dakota
Delaware	Montana	Utah
Hawai'i (4-year)	Nebraska	Vermont
Illinois (4-year)	New Hampshire	Washington
Iowa	New Jersey	Wisconsin
Kentucky	North Dakota	Wyoming
Maine	Oklahoma	
Maryland (4-year)		

Alaska

The University of Alaska is codified in the state's constitution, and its funding therefore has a statutory basis. As a practical matter the legislature generally begins with the past year's funding level and then considers how to reach the funding level requested by the University of Alaska Board of Regents' unified budget, which is itself based on requests from the three major academic units ("MAUs" - Fairbanks, Anchorage and Juneau). Once funding is approved it falls under the direct control of the Board of Regents, but for practical purposes it is controlled by the Chancellors of each MAU.

Alaska sets aside a pool of approximately 1% of the overall higher education budget for performance-based funding. Performance factors include degree production (especially in high need areas), undergraduate retention, and the progression of community college students from remedial to credit-bearing courses. Each MAU controls the distribution of the performance funds, which "should be allocated to appropriate strategic investments and reported as part of the overall performance and accountability process."⁴⁵

California

California has three separate systems of higher education: the University of California (UC), California State University (CSU), and the California Community Colleges (CCC). Each has a separate funding procedure.

UC has used a base plus/minus system since the 1990s, both in the allocation of funds from the State to the UC system and from the UC system to individual campuses. The system negotiates a new funding agreement with each governor. As of May 2012, the latest agreement, with

⁴⁵ University of Alaska System of Higher Education, 2010. *Performance Evaluation Guidelines*.

Governor Brown, had not been finalized, but typical past metrics have included fulfilling UC's goal of admitting anyone in the top 12.5% of California high school graduates, graduation rates, persistence rates, and admission of community college transfers.

Colorado

Colorado uses a "three part" allocation model, in which funds are first distributed according to each governing board's share of the General Fund, secondly according to each board's total education funds (General Fund + tuition [but not including fees]), and thirdly according to enrollment increases. In FY 2012-13 the enrollment factor was reduced to \$7.5 million (against the previous year's \$10 million).

Delaware

Higher education funding in Delaware is provided as part of the annual appropriations bill for all state general fund appropriations. Institutional boards of trustees develop budgets, which are presented to the Office of Management and Budget, and passed along for the Governor's consideration in developing the recommended budget. Joint Finance Committee hearings are held for all agencies, and a proposed budget is drafted and presented to the legislature for voting. Generally the funding base is the previous year's total budget, which will be adjusted based on mandatory or discretionary spending items, depending on the state's financial situation. Allocated state funds generally fall under the control of individual institutions, but may be restricted by the funding bill.

Hawai'i

Senior Institutions in Hawai'i are allocated base budget funding, and modifications to individual programs are considered by the legislature. If approved, they are allocated as add-ons to the base budget. Salary increases are also negotiated separately with the legislature. Generally, distribution of funds at the university level is up to the University of Hawai'i system itself. Although the performance funding formula recommended by the Act 188 task force has been endorsed by the University of Hawai'i Board of Regents, it is not in effect for four-year institutions because the state has not provided the funding to implement it. However, the Board of Regents is committed to the performance-based concept and will implement the program should the legislature fund it in the future.

Nevertheless, the performance funding formula is in effect for the University of Hawai'i community college system, which used it to implement approximately 3% of state funds in the last fiscal year. It must be noted, however, that this was paid for by ARRA restoration monies, not "new" state funds.

The Act 188 Task Force recommended the following performance measures: degrees and certificates awarded; an overweight for degrees and certificates awarded to Native Hawaiian students an overweight for degrees and certificates awarded to students in STEM fields; the number of low-income students participating in the Federal Pell program and the number of transfers from the community colleges to the baccalaureate campuses. Each outcome is considered independently of the others. Each campus has differently weighted factors to reflect its own particular mission. A campus can only reach its full funding potential if it meets or exceeds the goals for each measure; any funds that are not distributed lapse to the general

fund. The Task Force did not recommend a formula to cover enrollment, but rather that funds be set aside for future enrollment growth.

Illinois

Higher education funding in Illinois is appropriated annually by the General Assembly and allocated through direct operating support, indirect operating support, institutional grant programs, and student financial aid programs. Public higher education institutions receive most of their funding through direct operating support, most of which is unrestricted and can be used for various operating purposes. Specific operations funding is also appropriated for activities such as adult basic education, workforce preparation programs, and technical education.

Illinois' public four-year institutions each prepare a budget, which will typically include various factors including salary support, new facility operations and maintenance funding, increases in energy costs, and new program requests. The Illinois Board of Higher Education may make additional recommendations for these budgets, but the Governor and the General Assembly have the final say over actual funding levels. The allocation is determined using a base-plus method.

After the Higher Education Finance Commission's 2010 report discussing performance-based funding as an option for the state, the Illinois House and Senate passed performance-based legislation in 2011, with the goal of introducing performance-based budgeting by fiscal year 2013.

Iowa

The Board of Regents of the State of Iowa governs all three of Iowa's public universities, and two special schools; therefore individual institutions do not have their own boards. Funding is not based on enrollment or any other factor; rather, the legislature starts with the base budget from the previous year, and may add or subtract funds, or allocate a flat amount. The Board of Regents approves operating and restricted fund budgets. Occasionally the legislature adds unique funding for operations or capital funds for specific purposes that will not be included in the base.

State operating funds are generally designated for a specific institution to cover various expenses including salaries, support, maintenance, equipment, and other miscellaneous purposes. "Special purpose" operating units, including the State Hygienic Lab at the University of Iowa, Cooperative Extension at Iowa State University, the Recycling and Reuse Center at the University of Northern Iowa, and economic development programs at each institution, are funded separately from the central higher education budget.

Kansas

Kansas uses a base plus method to fund the 4-year universities. Any new money distributed to the institution is based on compliance with performance agreements that the Kansas Board of Regents signs with each institution. Performance metrics are based on improvement. Though the exact criteria differ from institution to institution, they address increasing diversity,

improving student achievement test scores, aligning the higher education system and the needs of the Kansas economy, increasing institutional quality, and providing student services.⁴⁶

Senior institutions of higher education in Kansas are governed by the Board of Regents. University funding is allocated from state general funds to the Board of Regents, and is then distributed by the Board of Regents to institutions according to a formula unique negotiated by the institution with the Board of Regents. Although they must be aligned with the Foresight 2020 plan, metrics are chosen by each institution to suit its own mission, and to help cover cost in institutions which have less ability to generate tuition revenue. The amount available for performance funding depends on the institution's agreement with the Board of Regents, and the distribution of new funds (although there have not been any for some years) also depends on performance.

Furthermore, the University of Kansas Medical Center, Kansas State University – Extension Systems and Agriculture Research Programs (which generates no tuition revenue), and each of the regional universities (Emporia State University, Pittsburg State University, Fort Hays State University) receives an additional 1% in funding, and Wichita State University an additional 0.5%.

Although the Board of Regents coordinates rather than governs two-year institutions, Community Colleges and Technical Schools must also negotiate a unique performance agreement aligned with the Foresight 2020 plan. Since 2011 they have been funded under an enrollment and cost model. The adult education program is theoretically distinct but often appears as a “component” in two-year institutions.

Kentucky

Since 2006 Kentucky institutions of higher education have been funded using a base plus system, although due to the current economic climate funding targets have often been met. The state supplements this funding with The Bucks for Brains (B4B) program, which requires institutions to match state funds with private contributors, including philanthropists, corporations, foundations, and other non-profits. The matched funds are invested and remain unused, but earnings on the principal are used to fund faculty positions, programs, or scholarships. There are six B4B funds: Research Challenge, Regional University Excellence, Technology Initiative, Physical Facilities, Postsecondary Workforce Development, and Student Financial Aid and Advancement.⁴⁷

Maine

Maine does not use a higher education funding formula, nor is there any statutory basis for funding practice. Although a base-plus system has been used in the past, the state is going to

⁴⁶ 2011 Performance Agreements. Kansas Board of Regents.

<http://www.kansasregents.org/resources/PDF/1698-BoardDec2011PerformanceAgreements.pdf> (accessed 3 May 2012).

⁴⁷ Kentucky Council on Postsecondary Education, 2010. *Kentucky's Bucks for Brains Initiative: The Vision, The Investment, The Future, 1997-2007*.

try zero-based budgeting for the next biennium.⁴⁸ The legislature may restrict funds either for specific purposes, or for specific institutions. Four-year institutions fall under the authority of the University of Maine System Board of Trustees, and funds not restricted by the legislature are controlled and distributed to individual institutions by the Board of Trustees. Each university then develops an annual budget that must be approved by the Board of Trustees.

Maryland

Maryland higher education funding generally follows a base-plus system. A specific exception to this was the allocation of state funds from FY 2007-2009 to subsidize enrollment growth. However, all Maryland Regional Higher Education Centers (RHECs) will be switching to a performance-based funding model beginning in FY 2014. The formula provides a base allocation of \$200,000 for each center, incentive funding for FTEs, lease funding for those institutions that lease space, and special funding to cover one-time or start-up costs. In 2010, the legislature mandated that total base funding for all RHECs be \$1.75 million in future years.

Michigan

Michigan does not currently use a formula for higher education funding. The legislature is debating a proposal by the Governor for a 3% increase in higher education funding tied to performance measures for FY 2013.

Missouri

Missouri typically uses a base-plus system for higher education funding. Each institution makes an annual budget request to the Coordinating Board for Higher Education (CBHE), which then makes a unified budget request for all institutions to the Governor and the General Assembly. The Governor then makes a recommendation, but the actual budget bills must be passed by the legislature. Due to the current budget climate no requests for funding increases have been entertained by the Governor for several years.

Montana

Montana has not used a funding formula for state fund appropriation for Montana State University and the University of Montana, and their respective affiliates, for the past few years.⁴⁹ The previous budget sessions have used a base budget concept where an inflation factor was added to the expenditures made in the base budget. Montana's three two-year institutions, namely Dawson College, Miles City College and Flathead Valley College, have a funding formula defined by state law. Since 1981, the general fund appropriation for Montana community colleges has been determined by multiplying three factors, namely the cost of education per FTE student, annual FTE student enrollment projections and the state percent share of funding. For a more accurate estimation of the cost of education (COE), Montana recalibrates the average cost of education every two years based on average figures across the community colleges. The updated COE is used to calculate fixed/variable cost of education. The variable cost of education per student, which is the total variable costs for the base year divided by the actual FTE students, is multiplied by the aggregated FTE count of three colleges, and then the fixed cost of

⁴⁸ Correspondence with Miriam White, Director of Budgeting & Financial Analysis, University of Maine System.

⁴⁹ Conversation with Frieda Houser, Director of Accounting & Budgeting at Montana University System

education is added to this product. The product of the first part of the calculation is finally multiplied by the state percent share, which is based on the legislature's public policy decisions, to determine the level of the state general fund for Montana community colleges.⁵⁰

Nebraska

Nebraska does not use a formula to distribute state funds to its University and State College system. The Governor and Legislature use a base-plus approach: the current appropriations for each sector become the base and the University and State Colleges lobby for additions to the base. None of the state appropriated funding is based on enrollment growth, number of degrees conferred, or any other performance metrics.⁵¹

State appropriations for community colleges were based on a formula that did include enrollment growth, weighting of course costs, ability to generate tax funds, and some other factors. However, starting in 2011, the State no longer uses a formula to distribute state funds to the community colleges. Rather, the State determines the amount of funding for the community colleges and then those funds are distributed by percentages based on the amount each colleges received the last time the State used the formula.

New Hampshire

New Hampshire higher education has a biennial budget that is determined by the funding amount of the previous year and available state resources. In addition, the state's political processes can influence the amount of funding.⁵²

New Jersey

New Jersey's funding formula for its senior public colleges and universities has changed over the past thirty years. Currently, there is no funding formula used to allocate funding to New Jersey's four-year institutions. Each four-year institution requests an amount it needs for operations and instructions, and the New Jersey Legislature and Governor make the final decision on appropriations. Funding for New Jersey Community Colleges is based on a funding formula containing four components: Foundation Aid, Access Aid, Non-Credit aid and Differential Group funding.⁵³ Foundation aid is the total foundation aid for a given fiscal year, which is equivalent to the prior year's aid level plus an adjustment based on the change in the state operating aid. Foundation aid is maintained at a ratio of approximately 28% of the total aid. Access aid is a fixed amount of approximately \$10 million that is distributed to all 19 New Jersey community colleges. Non-credit aid is another fixed amount of around \$6 million that is distributed to the 19 New Jersey community colleges. Differential group funding is determined by subtracting total foundation aid, access aid and non-credit aid from the total state operating aid for a given fiscal year. Differential funding is allocated based on audited credit hour enrollments. The base rate

⁵⁰ Montana Legislature. *Funding Formula Review Work Plan Item*. Accessed 1 May 2012.
http://leg.mt.gov/content/publications/fiscal/subcommittees/PEPB/2007_interim/Funding_Formula_Discussion.pdf

⁵¹ Conversation with Carna Pfeil, Associate Director at Coordinating Commission for Postsecondary Education

⁵² Conversation with Ken Cody, Chancellor for Financial Affairs and Treasurer/CFO at University System of New Hampshire

⁵³ Lam, Linda E. "New Jersey Community College Funding Formula".

for each institution is determined by dividing the total number of credit hours for all institutions by the total amount of differential funding and then the base rate is applied against each institution's credit hours to determine the level of its differential funding.

New York

The State University of New York (SUNY) used a funding formula methodology from 1998-99 to 2008-09, but has used incremental funding since then. SUNY is currently developing a new formula, which will be somewhat similar to the previous one, comprising enrollment, research, and other components. The details of a new formula have not been settled upon, but it is scheduled to be implemented in 2013-14.⁵⁴ The performance-funding portion of the model is being developed separately and will also take effect in 2013-14. The funding amount prior to 2008 was determined through the Budget Allocation Process (BAP).⁵⁵ For the BAP, enrollment was a key component along with other important components (including research, campus mission and size and mandatory costs such as collective bargaining, energy and general inflation). The three-year average FTE enrollment was calculated using a 12-cell matrix with academic disciplines grouped into cells based on average university instructional costs.

New York's two-year colleges have received approximately 40% of operational funding from the State, about 27% from the local sponsor and about 33% from the student tuitions.⁵⁶ For the 2011-2012 fiscal year, the statutory formula of full opportunity colleges was determined by choosing the lowest of the following: (1) two-fifths (40%) of the net operating budget of the college, as approved by the State University trustees; (2) two-fifths (40%) of the net operating costs of the college; or (3) the combined figure of (a) the total of the budgeted or actual number (whichever is less) of FTE students enrolled in programs eligible for State financial assistance multiplied by \$2,122 AND (b) up to one-half (50%) of rental costs for physical space. For non-opportunity colleges, the statutory formula was determined by choosing the lowest of the following: (1) one third (33%) of the net operating budget of the college, as approved by the State University trustees; (2) one third (33%) of the net operating costs of the college; or (3) the combined figure of (a) the total of the budgeted or actual number (whichever is less) of FTE students enrolled in programs eligible for State financial assistance multiplied by \$1,516 AND (b) up to one-half (50%) of rental costs for physical space.

North Dakota

North Dakota no longer uses a formula for state fund appropriation for its higher education institutions. In the past, North Dakota had used a Peer Institutions Comparison method to calculate the appropriate amount of funding for each school. This was done to try to close the gap in the distribution of resources across universities and colleges in North Dakota. The peer comparison model provided funding to institutions that were judged to have satisfactorily closed the gap with peer benchmarked institutions.⁵⁷

⁵⁴ Gilman, Wendy. "The State University of New York: Overview of the University Budget Process".

⁵⁵ Gilman, Wendy. "State University of New York: Resource Allocation State Operated/Funded Campuses".

⁵⁶ The State University of New York. *Assembly Standing Committee on Higher Education Public Hearing*. Accessed 10 May 2012. <http://www.suny.edu/govtRelations/state/pdf/Matonak.pdf>

⁵⁷ Conversation with Laura Glatt, Vice Chancellor for Administration Affairs of North Dakota University System

Oklahoma

Oklahoma's higher education has had reductions in state appropriations in recent years; therefore, no funding formula has been used in the allocation process in the last few years. Institution budgets may have increased by using other sources of revenue other than state-appropriated funds (e.g. tuition increases, ARRA funds in 2009 and 2010, increase grant revenue, and others).⁵⁸ Oklahoma is currently developing a new performance-based model. An updated 2013 formula has recently been proposed but has yet to be implemented. If Oklahoma senior institutions receive any new funding for FY 2013, then the updated performance-driven formula will be used. The new model will incorporate the following factors: campus completion plan in conjunction with the Complete College America (CCA) goals, retention rates from 1st to 2nd year, Pell grant retention from 1st to 2nd year, course passage – 24 hours completion rate, graduation rates, CCA degree target completion, number of certificates/degrees conferred and program accreditation.

Rhode Island

Since 2007, Rhode Island has experienced an annual decrease in funding for higher education. Rhode Island has never used a funding formula to appropriate state funds for its higher education. The state legislature decides the amount of funding, which reflects the economic and political climate of each year.⁵⁹

South Dakota

In 1998 the South Dakota Board of Regents dropped its enrollment-based funding formula. Therefore, there is no official funding formula for higher education in South Dakota. However, according to Paul Gough, Director of Department of Policy and Planning, South Dakota universities and colleges depend on student enrollment information to determine internal annual adjustments and present budget requests to the State.⁶⁰ There is a mainly enrollment-driven formula in use for technical schools, but these are federally funded, and are locally governed by the board of K-12 education.

Utah

Utah does not use a specific funding formula for its higher education appropriations. The Utah state legislature determines funding amount for Utah universities and community colleges using a Base Budget Plus method, which factors in the cost of living allowance, such as employee salaries and fringe benefits, and tuition.⁶¹

Vermont

Vermont does not use a funding formula for higher education institutions. Funding is determined annually on an ad-hoc basis at the discretion of the state.

⁵⁸ Conversation with Sheri Mauck at Budget and Finance Oklahoma State Regents for Higher Education

⁵⁹ Conversation with Michael Trainer, Spokesperson at Rhode Island Board of Governors for Higher Education

⁶⁰ Conversation with Paul Gough, Director of Policy and Planning at South Dakota Board of Regents

⁶¹ Conversation with Darren Marshal, Manager of Audit and Financial Services of Utah System of Higher Education

Washington

Washington does not use a funding formula for higher education. The Washington Higher Education Coordination Board was abolished in 2011, effective July 2012, and will be replaced by the Student Achievement Council. The Council's responsibilities will include identifying budget priorities and the levels of funding necessary for major policy changes in higher education. Under the new system the sum of tuition and appropriations must meet certain benchmarks on a per-student basis. Washington's community and technical college system uses a performance set-aside based on achievement points.

In 1997 Washington incorporated performance-based funding for both its 2-year and 4-year public institutions through an appropriation act that required the state to withhold a small portion of appropriation from each institution. The withheld amount was distributed if institutions achieved performance targets. Four-year institutions' targets included persistence, completion, faculty productivity, and graduation efficiency (credits completed versus credits need to graduate). Two-year institutions' targets included transfer rates, course completions, wages of occupational training graduates, and graduation efficiency. The use of performance criteria for both types of instructions was abandoned in 1999 due partly due to politics, but also due several issues that have been found to contribute to the failure of performance-based funding across applicable states:⁶²

- Higher education's lack of support for performance funding systems,
- Difficulty in meeting performance criteria,
- Insufficient attention to institutional diversity; and
- Incongruence between the goals of the legislature and the goals of the institutions.

In 2007 the Washington State Board for Community and Technical Colleges resurrected performance-based funding by allocating a portion of its institutions' budgets based on student success. The system rewards colleges when students reach various achievement points in their academic careers including gains in basic skill, passing pre-college writing or math, earning 15 credits the first year, then 30 credits, completing college-level math, finishing apprentice training, or earning a degree or program certificate.

West Virginia

In 2011, the West Virginia Commission on Higher Education approved a new funding formula for higher education. However, it has not been used by the Commission or West Virginia to distribute funding.⁶³ In the past, West Virginia has funded higher education through peer-based funding models that drove the appropriation requests.

The approved formula follows the trend of other formula states. Instruction is funded by multiplying student enrollment hours by a discipline-weighted matrix where more costly courses are funded at a higher rate. However, the weighted matrix is also weighted higher for upper

⁶² Dougherty, Kevin and Rebecca Natow. "The Demise of Higher Education Performance Funding Systems in Three States." *CCRC Working Paper No. 17* May 2009

⁶³ Email from Ashley Schumaker 17 May 2012.

division courses, with the assertion that this rewards retention.⁶⁴ The weighted credit hours are then multiplied by a legislatively set rate based on average revenue per credit hour. The rate takes into account student-derived revenue with the goal of moving to 50% state support and 50% student support.

The formula contains a component to maintain equity with peer institutions and another for performance funding. There are also incentives for increased bachelor degree production and increased enrollment of adults over the age of 25. The proposed appropriation addition is about \$8,000 per increased degree or increased student. In addition, the formula rewards institutions for course completion by measuring the ratio of credit hours completed to credit hours attempted. The proposed addition to appropriations is about \$14,000 for each percentage point above 70%.⁶⁵

Wisconsin

The state of Wisconsin allocates resources to the University System of Wisconsin using a base plus funding method. A base level of funding is established and incremental changes are made based on funding for initiatives. The UW system must request funding for specific items, justify those requests, and use the new funds for the purposes requested. The new funding that is received is distributed in a manner that is consistent with how the funding was provided to the system. For example, with funding for high demand faculty, the increases were distributed based on each institution's proportion of faculty within the UW System. Funding for particular programs, such as majors, goes only to the institutions that have those majors. Utilities funding is distributed based on previous expenditure of utilities (an indicator of need), plus funding to support expected increases due to new facilities at an institution.

The largest source of increased revenue in most years is for pay plan increases. That funding is distributed to institutions based on actual cost (in the case of classified staff increases) or as a percentage of an established payroll base (for unclassified staff). The calculated percentage is the preferred method as it can be calculated earlier and provides institutions more certainty about the revenue available to them.

Annually, the Board of Regents passes institution-specific allocations in the form of block grants; it may at this time decide to change how resources are allocated to the institutions.

There is no additional formal performance funding. The state asks each agency to provide performance measures with their budget requests each biennium but does not provide additional resources based on that performance. It should be noted that the use of initiatives usually includes "outcomes" that the state can expect for the funding provided.

⁶⁴ Legislative Oversight Commission On Education Accountability Meeting Packet. September 13, 2011 p.52

⁶⁵ Task Force on Efficiencies, West Virginia Higher Education Policy Commission. *Financing West Virginia's Future: A Funding Model for Higher Education*.

Wyoming

Wyoming funds higher education in the state budget by a University of Wyoming general fund block grant.⁶⁶ Appropriation increases are informally tied to enrollment growth. The Community College Commission administrative budget and the state aid to college program is also appropriated as a lump sum that is based on funding parity with a group of comparator colleges from across the nation; however, it is distributed based on a formula that separates fixed costs (base) and variable costs that are tied to enrollment (plus). The model accounts for local support and allows specific requests from colleges for program funding related to state initiatives, such as economic development goals.⁶⁷

Wyoming has no performance-based criteria tied to funding besides requests for specific initiatives; however, the University of Wyoming, and the Community College Commission publish an annual report that details their performance on a wide variety of performance-based metrics.⁶⁸

The University of Wyoming retains and controls all student-derived fees. However, student-derived fees are accounted for in the distribution of funds to community colleges from within the general appropriation to the Wyoming Community College Commission.

Strengths and weaknesses of the use of enrollment-driven funding methods

Many states, like Nevada, use student credit hours enrolled as opposed to student credit hours completed under the theory that the cost of providing services in a term does not change when students withdraw. However, if funding is based on course enrollment, institutions may be incentivized to enroll students regardless of their ability to succeed. The opportunity cost to the individual student is large in terms of both time and money. In addition, institutions and states waste money paying for a student who will not complete the class and their degree.

A way to mitigate low completion rates is to incentivize institutions to support course completion by funding only successful course completion. This policy may encourage institutions to provide more academic support such as tutoring and teaching assistants. On the other hand, if course completion is the driving factor behind state general fund appropriations, institutions may be incentivized to lower the standards required for course completion. Faculty members may feel pressure to give higher grades so students do not get discouraged and quit.⁶⁹ Alternatively or concurrently, institutions may become overly stringent in admission standards, which could reduce access for students.

⁶⁶ University of Wyoming. "The University's Funding and Response to State Funding Reduction." *Self-study*. Web. www.uwyo.edu/accreditation/_files/docs/selfstudy_chap10.pdf

⁶⁷ Wyoming Community College Commission. *Fiscal Handbook*. Web.

⁶⁸ Wyoming Community College Commission. *Annual Report 2011*. Web.

⁶⁹ Jacobs, Joanne. "More States Utilize Performance Funding for Higher Education." *US News and World Report*. February 24, 2012.

A third alternative funding alternative uses enrollment numbers taken at the end of the term or course completion including failing grades, which may incentivize institutions to provide academic support for students to help them stay in the class, while tempering the pressure to pass students so that the institution gets paid for the time invested in the student. However, these types of formulas have the same weaknesses as those listed at the outset of this section. The NSHE funding proposal falls into this category since the proposal allocates money to credit hours completed with any grade except a withdrawal.

Before deciding if course enrollment should drive funding, the Committee should consider what they want to incentivize. Historically, funding based on enrollment has incentivized getting students into class, sometimes to the detriment of both the school and the student. In addition, Nevada's historic funding method appears to have resulted in all institutions embracing an access mission because it was financially advantageous, rather than each institutions embracing a differentiated mission. The Committee should take care to consider the incentives created by different kinds of enrollment-based funding formulas and by performance criteria such as successful course completion.

States' use of performance-related criteria

Background

Higher education policy makers, foundations, and other organizations have recently emphasized the use of performance funding; however, it is not a new policy. Since 1979, states have experimented with different types of performance-based funding that went beyond funding systems based simply on enrollments. The results were mixed, and programs were cut due to lack of alignment with state politics, complexity, lack of available data, or lack of funding.

Though many states collect performance-related data, relatively few states incorporate performance-related criteria into their funding decisions. In some states, performance metrics are reported to the legislature as part of the system of higher education's annual or biennial budget request, a practice termed "performance budgeting" by Joseph Burke. This differs from those states that explicitly tie funding levels to performance-related criteria through a formulaic process (true performance funding).⁷⁰ Furthermore, to be effective states need to tie performance-related funding to a significant share of an institution's overall income if the criteria are to have an impact on behavior. While there is considerable debate about what constitutes a "significant" share, in the past those states that have implemented performance-based funding have done so at levels too low to truly incentivize behavior.

In other cases, the performance pool was formally adopted but never implemented. This is true of the current Nevada funding formula, which included a performance pool that was never employed due to unclear performance metrics. Indeed, the development of clear metrics was not pursued because the performance pool was relatively small. The upshot was that the lack of clear metrics led to the performance pool being returned to the NSHE's general fund appropriation. For performance criteria to change behavior, the metrics must be clear and the dollar amount significant.

Output metrics

- **Degrees awarded:** annual number and/or percentage of certificates, associate's degrees, bachelor's degrees, master's degrees, doctorate degrees, and other professional degrees. Exactly which degrees are tracked depends on the state and institution.
- **Graduation rates (also known as time to degree):** number and/or percentage of certificate- or degree-seeking students who graduate in a predetermined length of time. On-time rate are defined as two years for associate's degrees and four years for bachelor's degrees. Extended time usually refers to three years for associate's degrees and six years for bachelor's degrees.
- **Research incentives:** metrics related to the amount of federal research and development money brought into the university.

Progress metrics

- **Transfer rates:** annual number and/or percentage of student who transfer from a two-year to a four-year institution.

⁷⁰ As accounted in Carey, K. and C. Alderman. *Ready to Assemble: A Model State Higher Education Accountability System*. Education Sector Report. December 2008.

- **Successful course completion:** a course for which a letter grade above a D- or pass has been entered.
- **Time and credit to degree:** average length of time in years.
- **Student progression (as known as credit accumulation):** students are weighted more for funding purposes after they pass credit hours thresholds.
- **Advancement through remedial and adult education.**
- **Job placements.**

Economic development metrics

- **Earned research dollars.**
- **Degrees linked to workforce development goals:** high demand degrees generally in science, technology, engineering, mathematics and healthcare.

National Governors Association Complete to Compete Metrics

The National Governors Association (NGA) *Complete to Compete* has recommended metrics for performance funding.⁷¹ Progress metrics allow policymakers and the public to determine if the state and its public institutions are on track to meet future goals, while outcome metrics show how the state and institutions are currently performing against the completion goals. NGA simply recommends that these metrics be collected and published. A later NGA brief recommends that states “include performance measures (e.g. degrees awarded, degrees awarded to low-income and minority students) as part of the regular budgeting process for higher education. State funding for public colleges and universities should be based on measures of student program and success and not on just enrollment or what other colleges spend.”⁷²

State that use performance criteria in their funding formula

Table 13 shows the states that SRI found use performance funding, where at least one performance-based criterion is directly linked to funding. All of these states incentivize completion by awarding funding based on degrees or certificates. Four states fund based only on the NGA-defined outcome metrics, while the rest fund both on outcome metrics and progress metrics. The two most common progress metrics are credit/course completion and transfer rates between 2-year and 4-year programs. No states funds on all NGA completion metrics, though movement toward budgets based on course and degree completion align with the later NGA funding brief.

⁷¹ Reyna, Ryan. *Complete to Compete: Common College Completion Metrics*. NGA Center for Best Practices. June 2010.

⁷² Conklin, Kristin. “Follow the Money: Strategies for Using Finance to Leverage Change in Higher Education.” *Complete to Compete Briefing Paper*.

Table 13. States that include performance related components in higher education funding.

States using performance criteria	Elements/Description
Florida (2-year institutions only)	Degree completion; degree completion and employment of at-risk students
Hawai'i (2-year institutions only)	Credit completion; degree/certificate completion; degree/certificate completion for Native Hawaiians; STEM degrees/certificates; number of at-risk students; transfers to 4-year institutions
Illinois (2-year institutions only)	Degree/certificate completion; degree/certificate completion for at-risk students; transfer to 4-year institutions; remedial & adult education advancement
Indiana	Credit hours; overall degree change; low-income degree student change; on-time degree change
Kansas	Criteria vary, as each institution creates its own performance agreement: increasing diversity; improving student achievement test scores; aligning the higher education system and the needs of the Kansas economy; increasing institutional quality; providing student services.
Louisiana	Course completion; STEM degrees; health degrees; research
New Mexico	Credit completion; degrees/certificates completion; STEM degrees/certificates; health degrees/certificates; at-risk student degrees/certificates
Ohio	Credit completion; degree completion; at risk student completion; STEM degrees
Oklahoma	Course completion; retention; degree/certificate completion
Pennsylvania	4-year institutions only: course completion; self-developed criteria
Tennessee	4-year & 2-year institutions: student progression; degree/certificate completion; transfers out with 12 Hours 4-year institutions only: research & service; 6-year graduation rate 2-year institutions only: dual enrollment; degrees/certificates; job placements; remedial & developmental success; workforce training
Texas	Degrees awarded with special weights for critical fields and at-risk students.
Washington	2-year only: gains in basic skills; passing pre-college writing or math; earning 15 credits the first year; earning 30 credits; completing college-level math; finishing apprentice training; or earning a degree or program certificate.

Strategic Directions for the Nevada System of Higher Education

In January 2012, the Nevada Board of Regents adopted *Strategic Directions for the Nevada System of Higher Education* in response to the NGA's Complete to Compete Initiative. The Board of Regents stated its primary goal to be to "graduate more students with meaningful degrees and certificates, thus positioning the graduates for fulfilling and productive careers and positioning the State with an educated citizenry required for supporting and maintaining economic development and diversification." The Board of Regents spells out four initiatives. The second initiative speaks to performance-related funding criteria stating the goals of "reward[ing] institutions for progress in achieving performance standards, including goals agreed upon through the National Governors Association Policy Academy and the CCA completion metrics" and "establish[ing] performance metrics to set budget parameters, determine system priorities, and allocate performance funding dollars."

Many of the performance criteria used by other states align with the *Strategic Directions* initiative. Course and degree completion by low-income and under-represented students are performance criteria that align with Initiative #2.1 "Adopt...goals for enrolling and graduating students from diverse backgrounds." Performance criteria base on workforce needs align with Initiative #2.3 "Establish institutional protocols for reviewing student performance and determining the extent to which they are pursuing and completing educational programs and acquiring the skills demanded of Nevada employers."

Status performance criteria discussions

Table 3 summarizes the states that have implemented performance criteria in their funding models. However, it also shows that other states also have definite plans to switch to performance-based funding. The shift to the use of performance based funding is clear, and it is picking up speed. The concerns of taxpayers, parents and policymakers discussed above will likely ensure that this development is here to stay.

Table 14. States currently using and states considering performance-based funding (illustrative, not exhaustive).

States which currently use, or have a definite plan to switch to, performance-based funding		States considering performance-based funding
Arkansas	Montana	Connecticut
Colorado ¹	New Mexico	Arizona
Florida ²	Ohio	Georgia
Hawaii ³	Oklahoma	Idaho
Illinois ⁴	Pennsylvania	Kentucky
Indiana	South Carolina	Massachusetts
Kansas	Tennessee	Mississippi
Louisiana	Texas	New York
Maryland	Washington	Nevada
		North Dakota
		Oregon
		Michigan
		Virginia
		West Virginia

¹ CO will only switch to PBF if the state meets a target funding threshold.

² 2-year institutions only; 4-year institution plan under development

³ 2-year institutions only; 4-year institution plan has been developed but not yet implemented due to lack of funding

⁴ 2-year institutions only; 4-year institution plan under development

Performance funding implementation

Implementation and scale are critical questions for any new model. Performance-based rewards structured as bonus funding were the first to be eliminated when state revenues went down. Integration with the base allocation protects performance-based funding while communicating a state's commitment to outcomes. In addition, the scale must be large enough to make a difference – in hearts and actions. The funds allocated by performance-based measured should be large enough to incentivize behavior change and also communicate state commitment. Tennessee and Ohio have moved to all of their formula funding being based on successfully completed credit hours, while other states use small performance pools as listed in Table 15. It should be noted, though, that there is value in any use of performance criteria as it focuses stakeholder attention on the alignment of institutional outcomes with state goals. Virginia and Louisiana both reward institutions meeting their performance-based goals by giving those institutions more autonomy over their student-derived revenues. In Louisiana, institutions meeting benchmarks are allowed to raise tuition.

Table 15. States' use and implementation of performance criteria.

States using performance criteria	Implementation	Institutional Base Funding or Bonus
Florida (2-year institutions only)	1%-2% - fix amount allocated ~\$12 million.	Bonus with plans to move to institutional base funding
Indiana	5% of total state appropriation	Institutional base funding
Kansas	New money	Bonus
Louisiana	25 percent of institutional operating budgets when fully implemented	Institutional base funding
New Mexico	New money	Bonus
Ohio	100%	Institutional base funding
Pennsylvania	2011 revision sets the performance pool at 2.4 %of PASSHE's total Education and General appropriation. This is equivalent to 8 percent of the Fiscal Year 2011 state appropriation for institutions.	Institutional base funding
Tennessee	Phase-in over 4 years to 100%	Institutional base funding
Texas	\$80 million in 2009	Bonus
Washington (2-year institutions)	<1% - fix amount allocated \$1.8 million - part of institutional base funding	Bonus

Performance funding results

Like any policy, time is required for results to be shown. Many of the current uses of performance-based funding are too new to evaluate; however, a few are old enough to see results. Though recently Ohio has expanded its performance-based funding, the state started incentivizing graduation rates in 1998. Since then, Ohio has reported the median time to degree for bachelor's degrees decreased from 4.7 years in fiscal year 1999 to 4.3 years in fiscal year 2003; the percent of in-state bachelor's degree 4-year graduation rate increased from 34% in 1999 to 43% in 2006; and the number of at-risk student who received bachelor's degrees increased by 13%. The Pennsylvania System of Higher Education between 2002 (when their performance pool was initially enacted) and 2008, the system reports a nearly 10 point increase in overall four-year graduation rates, including increases of 6 and 9 points for African American and Hispanic students and a jump in second-year persistence rates, especially for Hispanic students, who saw a 15-point persistence improvement.⁷³

Strengths and Weaknesses of Performance Criteria

Since the Second World War, higher education in the United States has been the engine of economic growth and social mobility. It is accustomed to worldwide recognition and emulation. This success was built on an ethic of access, first embodied in the G.I. Bill and then sustained by the expansion of low-cost state institutions, federal financial aid and other student loan programs. This ethic was also furthered by a conviction among middle class families that college was the best path to economic security.

Although getting students into college (increasing the participation rate) is still a crucial issue, especially among low-income and underserved population groups, it is fair to say that an inflection point has been reached. Access is no longer the only, or even the primary challenge facing states and institutions of higher education. In Nevada, roughly 40% of students who enroll full-time in a four-year college fail to complete—the numbers are worse for part-time and two-year programs. It is a serious waste of public resources to admit students to college who then drop out without a qualification, and grossly unfair to the students themselves who are left with dashed hopes and (often) painful burdens of debt. Nevada, along with all other states, needs performance criteria that will change this dynamic.

As we observe in the tables above, all states support higher education to some degree or other based on the number of students enrolled and taking classes. This has the effect of biasing decisions by campus leaders towards greater access. More students in seats mean more money. If access is the goal, then enrollment is an appropriate performance criterion. But once the focus shifts to other goals, as it has, then paying for enrollment is deficient in a variety of ways. It encourages the admission of students unprepared to succeed, it provides no incentive to help those students, or to ensure quality, and it generally fails to align programs and curricula with workforce and other economic development goals. (While many formulae recognize

⁷³ HCM Strategists. *Performance Funding in Indiana. An Analysis of Lessons from the Research and other State Models*. 2012. http://www.hcmstrategists.com/content/Indiana_PFRReport2_8.2.11.pdf

differences in costs associated with different programs, these costs are paid without evaluating the purpose or success of a program.)

Performance criteria that go beyond access, therefore, and that address the deficiencies noted above, fall into three broad categories:

- **Alignment:** It is striking how often funding models for higher education are not clearly aligned with policy goals. Yet how money is spent is policy, whether acknowledged or not. Any higher education funding model should reflect the expressed policy goals and foundational values of the state and its institutions. For example, land-grant universities—a distinctively American institution—were established with the explicit purpose of promoting “useful learning”. The alignment of higher education’s teaching, research and engagement with the needs of society, including a state’s social and economic goals, is a basic performance test for all policymakers.
- **Attainment:** Educational attainment—the percentage of the adult population with a college degree—is such a strong predictor of a region’s economic success that it represents a goal in its own right, apart from questions of broader questions of alignment. In Nevada only 22% of the adult population have a bachelor’s degree, which ranks the state 46th among the states and the District of Columbia, although the 7.5% attainment rate for associate’s degrees is close to the national average. Raising the number of graduates produced is a straightforward way to raise attainment and so constitutes a key metric, in one form or another, for many performance criteria.
- **Quality:** This issue is not often addressed by performance criteria actually in use, but it has been the subject of a great deal of discussion, for example, in the *Spellings Commission Report of 2004*. As the focus on attainment and on graduates grows, there will inevitably be a concern with quality control. In the long run it is surely unwise to provide significant incentives for the production of degrees without, at the same time, providing incentives for maintaining quality.

Degrees and GPAs are proxy measures of the skills and competencies students acquire through their education. As students and their families pay more, and as employers become more demanding of new entrants to the workforce, they will all want to know if the degree means what it says. Various independent measures of learning have already been developed and tested, for example, the Collegiate Learning Assessment, and their use as performance criteria in one form or another is inevitable.

Many specific metrics are subsumed into these three broad categories, and some may be especially important in Nevada’s case. For example, criteria that reward institutions for remediation—efforts to accelerate and ensure the graduation of students who are under-prepared—contribute to the overall purpose of graduation and attainment. In Nevada’s case, remediation is especially important, with almost 30% of freshman at 4-year institutions and over 41% of freshman at two-year institutions requiring it. Another example is using time to degree, or some other measure of academic progress, as a criterion. Progress is a strong predictor of eventual success (although what is an appropriate measure will vary by program and institution and must be chosen with care). As noted above, at present it takes too long to get a degree in Nevada.

Three other issues matter in the design and adoption of performance criteria. They are operational rather than substantive.

- **Clarity:** It is very easy to design a complicated set of performance criteria that answer to every felt need. However, a complicated formula is hard to implement, more likely to yield unintended consequences and, most important perhaps, difficult to explain to policymakers, stakeholders, and citizens. Extremely complex formulas have doomed past performance-based initiatives.
- **Differentiation:** Any set of performance criteria will be applied to a highly differentiated set of institutions. The way the criteria operate, along with the incentives created, should have the effect of maintaining and even enhancing differentiation and the division of labor. This will encourage efficiencies in the use of resources. Performance funding that does not account for the different missions of institutions has also been attributed to performance funding failures.
- **Scale:** As noted at the beginning of this section, the resources subject to performance criteria should be significant enough to shape behavior. This means that even if fees and tuition revenues are properly separated from public monies, the overall income of an institution or system should be considered in determining what percentage of public funds is dedicated to performance. Furthermore, these funds should be drawn from the overall budget for higher education and not budgeted separately. Otherwise, as seen in the past, the monies set aside will disappear whenever the state budget is under stress.

The three substantive categories discussed above, along with the three operational considerations also identified, provide a simple framework for evaluating any existing or proposed system of performance criteria, at least a framework designed to go beyond access and enrollment as a primary driver. Indeed, the three categories can be ranked in the order presented. Alignment should be the starting point for any understanding or evaluation of a funding model. Failure to design a system of funding without careful reference to policy goals and foundational principles may yield unexpected and undesirable practices and outcomes. Second, no other purpose is more important than a laser-like focus on the production of graduates. Various metrics may capture different aspects of success in this area, but such success is, and should be, at the heart of any set of performance criteria. Finally, quality control is also important, but may require more deliberate adoption given the need to collect new kinds of data.

If these categories are systematically addressed, then operational questions become important (especially important when developing entirely new models of funding). Furthermore, the timing and character of the implementation plan is critical. However, implementation will be discussed in the next deliverable, as it is likely to be enmeshed in other policy choices beyond any particular formula and performance criteria.

Evaluating the Existing NSHE Formula

The “current” funding formula has not been directly employed to calculate state funding levels for the last two biennia. It is very complicated (one of the most complicated among all states),

but, as noted above, its several elements are driven directly or indirectly by student enrollment. In short, it reflects the principle of access, in which institutions are rewarded for enrolling students in classes. It is sensitive to the mission and size of institutions, but otherwise it is not "outcome-based." As a recent report notes:

"The current funding model does not have a performance component, or an incentive funding component, and could be improved by additions and changes to incorporate performance. There is no linkage to the goals for the colleges and universities, nor any measure of accomplishment, and no link to performance standards."⁷⁴

These are serious objections from the point of view of the first and second criteria discussed above. It was never tightly linked to larger policy goals, or explicit principles. This deficiency is revealed in areas of the formula unrelated to students: Research is not funded based on a formula or any guiding set of principles, but based on incremental payments. No economic development goal is attached to it. Operations and maintenance is based on the size of existing buildings, as if heating and cooling buildings is an important policy goal of the state. As noted elsewhere, the performance criteria were never adopted, and there is no consideration at all of quality, in the form of skills, competencies or anything else.

Serious claims exist concerning the lack of equity in the way this formula has worked. In our view the objections to this formula are more fundamental. It is a model without a guiding rationale, based on students in seats, deficient in its support for remediation and student success, and combined with a large number of out-of formula payments of an arbitrary and unplanned kind. It should be abandoned, or so completely re-worked as to be unrecognizable.

The New Model for Funding Higher Education

The NSHE work on an alternative formula is grounded in the strategic planning process noted above, which yielded the strategy document "Strategic Directions for the Nevada System of Higher Education." Having clearly articulated goals as a point of departure helps meet the test of alignment described above, although the incentives created by the formula should, of course, align with these goals.

In addition to emphasizing the increased production of meaningful degrees and certificates as a critical metric of success, this strategy document is distinguished by the fact that it also identifies numerous initiatives and practices that will contribute to success, but are not directly related to state funding. This underscores an important point. While the NSHE funding formula is very important, it is far from the only element required to produce more degrees in less time (and with fewer resources). We note, for example, the focus on new and improved data systems as one area that will make an indispensable contribution to measuring success or designing interventions to avert failure. (While Nevada has made progress in data collection centered on student unit records, a P-20 State Longitudinal Data System is not yet mandated or funded.⁷⁵)

The NSHE leadership has worked closely with the National Governor's Association (NGA) in devising the performance criteria or pool for its new formula. A particular virtue of the way the NGA approaches metrics, which is especially important in the case of Nevada, is that they have

⁷⁴ "Evaluation of the NSHE Funding Formula" MGT of America, (May, 2011) p. ES-2

⁷⁵ www.DataQualityCampaign.org/DFA2011

focused on metrics that apply to all kinds of students—traditional students in a residential, four year college, transfer students, part-time students, and students requiring remediation. This last kind of student presents a tremendous challenge for the NSHE, where over 40% of two-year college freshmen require remediation, and almost 30% of four-year college freshman require it. But current remediation efforts aren't working, with less than 10% who get help in two-year colleges, and less than 40% who get help in four-year colleges completing their degrees in a timely manner. Nevada cannot achieve its goal of increased graduates unless it is successful in remediation.

The work on this performance pool continues, and what is contained in the proposal is preliminary. The comments that follow are designed to contribute to that work by evaluating its broad direction, identifying ways in which it might be reshaped, and suggesting new elements that could be included. While everyone recognizes that the NSHE performance pool is a work in process, the commitment to a performance pool as part of a new funding formula is an important and valuable improvement over the present formula, and a change consistent with developments in many other states.

As noted above, the outcome metrics identified by the NGA provide information about current performance, while the progress metrics help flag the direction of future performance, and also—when based on individual student records—provide administrators with the tools for targeting where exactly individuals go off track.⁷⁶ When used in combination they allow for measurement of progress and for understanding of how that progress was achieved.

The metrics proposed by the NSHE focus largely on one outcome: degrees awarded. This particular outcome has the virtue of being a simple number, directly related to the goal being pursued, easy to collect, difficult to manipulate, and intuitive—therefore easy to explain to citizens, students, stakeholders and policymakers. It meets the operational test of clarity described above.

But this approach is subject to some shortcomings. Nevada needs more graduates, but it also needs to produce them more efficiently—in other words by patching leaks in the pipeline—and with no loss in quality. Rewarding raw numbers produced may create incentives to admit even more unqualified students, hoping some stick, or to lower standards to get students out the door.

Progress metrics, and what the NGA refers to as “context” metrics, can serve as a check on this potential problem. For example, retention rates—the number of students who enroll consecutively from fall-to-spring and fall-to-fall—will indicate pipeline problems, as will the completion ratio—the ratio of degrees granted to full-time enrolled undergraduates. However, the proposed performance criteria include progress metrics for the community colleges only. Without progress metrics, the emphasis on graduates is at odds with the requirement for quality identified above.

⁷⁶ A more conventional way to describe the outcome metrics chosen by the NGA could be as output metrics. An outcome might be thought of as a graduate having the skills and competencies for which the possession of a degree is a proxy measure.

In that spirit, another metric that we believe should now be seriously considered by Nevada (as well as by other systems of higher education) one identified in the discussion on quality, is the independent assessment of learning outcomes. This is the best kind of quality control. We do not specifically recommend the Collegiate Learning Assessment, but it has been shown to be an independent, valid measure for student skills across time and across groups of students. Any metric chosen should be equally valid and allow Nevada to compare its students' skills against national scores. No such measure is in the proposed performance pool. It will require some years to accumulate the necessary data for implementation, but the future adoption of such a metric should be allowed for in the design of the pool.

Rewards for achievement in research are also included in the performance pool. We will reserve most of our analysis of research funding for the final deliverable, as that is tightly tied to economic development alignment, which will be generally addressed at that time. However, the way in which research funding is treated in the proposed alternate funding formula is worth a preliminary discussion because it appears twice. In the "base" formula higher costs are assigned to the two research universities for upper division and graduate level classes by applying a 10% increase in the weight of these classes. In the performance pool research is rewarded based on a very broad definition of dollars received for sponsored and external research expenditures (for example it includes dollars received for student services). Neither approach addresses directly the economic development goals of the state. Dollars earned through sponsored research (which is appropriately defined) should be rewarded, but perhaps not almost any kind of external grant, at least not under the rubric of research. This important area is not clearly aligned in ways consistent with stated goals.

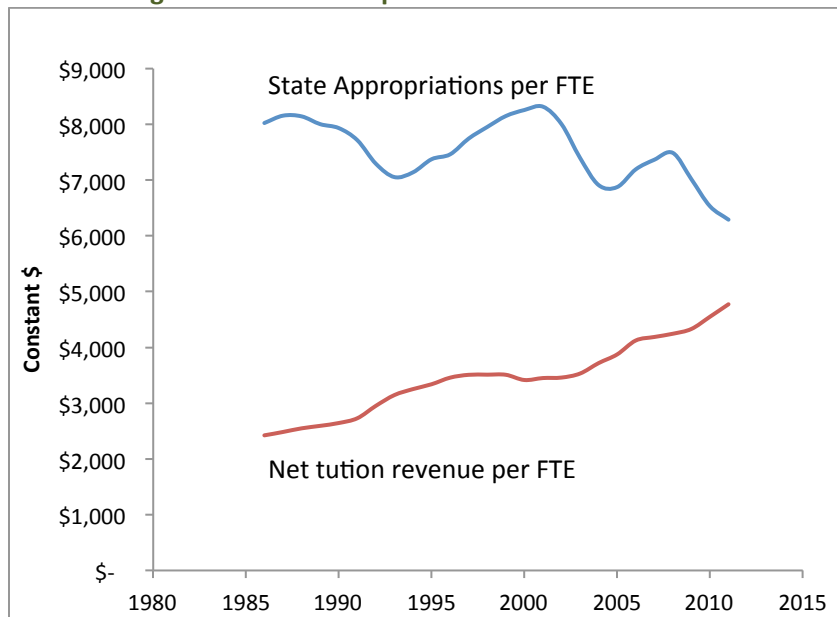
Remediation is another important issue. The "base" formula provides no extra support for remedial courses at the colleges, even though successful remediation is a relatively costly activity, and does not support remedial courses at the universities at all (at present the universities provide remedial courses without using state support, a situation that will remain unchanged under the new system). There is a premium weight applied to "basic skills" classes, and there is a progress metric with a modest weight included in the performance pool that rewards successful remediation at the college level. Remediation is an area in which a formula should accentuate differentiation. It is not clear that the proposed formula achieves this.

States' Budgeting Practices Pertaining to Student-Derived Revenues

Any discussion about higher education funding provided by state government should include a discussion about student-derived revenues. As illustrated in the Figure 2, average national tuition revenues per FTE were one quarter of state appropriations per FTE. In the 25 years since then, tuition has grown and appropriations have decreased. Historically, student-derived revenues are controlled and retained at each institution and this remains the dominant arrangement. Even in states, such as Nevada, which has a requirement for some of the student-derived funds to be budgeted through the legislature, institutions have a lot of autonomy in how to spend their money. Other states such as New York and Virginia are rewarding institutions with increase autonomy in respect to their student-derived revenues if they met performance-based benchmarks. States like Texas budget some student-derived revenues through the legislative process, but differential tuition policies allow high-demand institutions to charge more tuition that they then retain and control.

To incentivize alignment and entrepreneurship, the best practice is for institutions to retain control over their own student-derived revenues. Different institutions have different missions, which results in different cost for the delivery of instruction and services. Average cost may be more at institutions that have a residential mission and/or a research college mission versus institutions with a commuter population. Taxpayers should (and do) question why they should pay different prices for equivalent classes delivered at different institutions. The students who choose to attend that university should pay for the difference in cost. And those tuition and fee revenues should go toward the price difference in the cost of delivery.

Figure 2. National average state appropriations per FTE have fallen while average tuition revenue per FTE has risen.



Treatment of student-derived revenues in Nevada

Student tuition and fees are revenue sources for Nevada higher education institutions that are collected by each institution. The Nevada constitution does not allow residents to pay tuition; however, residents are assessed a registration fee. The registration fee is a per-credit charge that is set at a different amount for each institution by the Board of Regents. The fee is based on the recommendation of the Tuition and Fee Committee comprised of campus presidents and student representatives. Every student is assessed the registration fee. In addition, nonresident students are assessed an additional out-of-state tuition charge. These fees and tuition (together with a less significant source of revenue, termed “miscellaneous student fees”) are what this report refers to as student-derived revenues.

All nonresident tuition is budgeted as revenue in the NSHE state-supported operating budget. However, only a portion of student registration fees is budgeted through the state-supported operating budget. Historically, 60%-76% of student registration fees were budgeted in that way.⁷⁷ Although tuition and fee levels are set by the NSHE Board of Regents, the Legislature requests that revenues be budgeted through the state-supported budget, in order for “the money committees, students, and the public to more clearly understand how each institution intends to expend additional revenues.”⁷⁸ The decision of how much of the fees are budgeted through the state-supported budget is an important one since, as mentioned before, legislative budget policy towards the state supported budget has been to *account* for student-derived fees first and then fill the balance with state general funds, although student fees and nonresident tuition dollars remain on campuses.⁷⁹ In other words, the share of student-derived revenues that are in state-supported operating budgets are the “first dollar counted” for each individual institution.

The Board of Regents can direct portions of any increase in student fees to the NSHE capital and general improvement funds, which are part of an institution’s self-supported budget. This means that the directed portion of the fee is not budgeted via the state-supported budget. Over the years, this practice resulted in a declining percentage of total fees being budgeted through the state-supported budget. In 2005 the Legislature sent a letter of intent to NSHE requesting that this decline in the percentage of student fees included in the state-supported budget be reversed, saying “decreasing percentages of student fee allocations to the state-supported budget results in higher General Fund operating appropriations than would otherwise occur. As a result, the money committees wish to communicate that any future Regent-approved fee allocations to the state-supported budget that are below current cumulative percentages may not be supported by the Legislature in corresponding General Fund appropriations.”

⁷⁷ Fiscal Analysis Division, Nevada Legislative Counsel Bureau. Education. *2011 Appropriations Report*. <http://www.leg.state.nv.us/Division/fiscal/Appropriation%20Reports/2011AppropriationsReport/2011AppropriationsReport.cfm>

⁷⁸ Morse Arberry, et al. Letter to Daniel Klaich, Chancellor, NSHE. 8 Sept. 2009. *2010-2011 Nevada System of Higher Education Operation Budget*. p. 14.

⁷⁹ Fiscal Analysis Division, Nevada Legislative Counsel Bureau. Education. *2011 Appropriations Report*. <http://www.leg.state.nv.us/Division/fiscal/Appropriation%20Reports/2011AppropriationsReport/2011AppropriationsReport.cfm> p. 148.

NSHE proposed funding model

The alternative funding model developed by the Nevada System of Higher Education (NSHE) proposes to remove all student-derived fees from the state-supported budget. As stated in their document quoted below, this would result in the formula being used to allocate general fund dollars only.

The proposed model allocates General Fund dollars only without the inclusion of student tuition and fees. The funding model then provides that each institution will retain 100 percent of student registration fee and nonresident tuition revenues generated at that institution. The level of student fee revenues generated by an institution does NOT impact the amount of General Fund support generated by the new funding model.⁸⁰

Other states' budgeting practices

States that budget student-derived fees through the legislative process

Nevada is somewhat unique in its appropriation of student-derived revenues by the legislature. Twelve state higher education executive officers indicated in a national survey that student-derived revenues must be appropriated by their legislature (please see Table 1). Of these twelve survey responses, only the California Community College system, the New York system, and the Texas system indicated that student-derived revenues offset the general fund appropriation. However, the New York system is currently in the process of changing the way it handles and accounts for student-derived revenues. (Please see the following New York section.) Some of the states that appropriate student-derived revenues require the revenues to be deposited into separate state tuition accounts, while the other states allow the actual funds to be retained on campus. Of the twelve representatives that said their student-derived revenues are appropriated through the legislature, ten state representatives indicated that the revenues also have to be deposited with the state.

State practices are more nuanced than a simple table indicates. Arizona has a hybrid system where each institution retains a portion of tuition, and another portion of the tuition revenues is deposited with the state treasurer and appropriated back to the universities. Each university receives back all tuition remitted to the state.⁸¹ In Kansas, for state universities tuition is deposited into the state treasury and appropriated back without restrictions; at all other public Kansas universities, the tuition is fully controlled at the campus level. The representative from Florida said although the legislature appropriates funds through the annual appropriations bill, funds remain with the institutions where collected.⁸² In Wisconsin, the revenues are deposited into state accounts, but the higher education system has the authority to spend all revenues as collected.⁸³

⁸⁰ *A New Model for Funding Higher Education*. Nevada System of Higher Education.

⁸¹ Arizona representative answer to question 13 on the SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey.

⁸² Representative from Florida answer to Question 13 on the SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey.

⁸³ Representative from Wisconsin answer to Question 13 on the SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey.

Table 16. States that appropriate student-derived fees through the legislative process.

Student-derived revenues appropriated through the legislature.	Tuition is a direct offset of the state general fund revenue appropriation.	Student-derived revenues are deposited into separate, institutional designated state tuition account.
Arizona California Colorado Florida Hawaii Idaho Kansas New York North Carolina Tennessee Texas Virginia	California New York* Texas	Arizona California Hawaii Idaho Kansas New York* North Carolina Tennessee Texas Virginia

Source: State Higher Education Executive Officers (SHEEO), State Tuition, Fees, and Financial Assistance Policies for Public Colleges and Universities: 2010-11. Please see Appendix Table 1 for extended source notes. *The New York system is currently in the process of changing the way it handles and accounts for student-derived revenues. Please see the following New York section.

States where institutions retain their student-derived revenues

Table 17 shows the individual institutions or campuses that control and retain their student-derived revenue. Of the states whose institutions control and retain tuition revenue, four state representatives said that the revenues are also required to be deposited into a state account and appropriated prior to expenditure. Nevada is not included in the table because, while institutions keep the actual revenues on their campus, the expenditure of the revenues must be authorized by the legislature. As stated in the background section, when the formula is not fully funded NSHE constituent institutions direct their own expenditures.

Analysis of the national survey of state higher education executive officers suggests that the states that allow institutions to control and retain their student-derived revenues and do not appropriate that revenue through some direct means also do not account for or recognize the revenues in the budget setting process.⁸⁴ However, it should be noted that accounting for student fee revenue might happen informally in state budget negotiations. This apparently dominant model of institutions retaining control and direction over student-derived revenues may be attributed to tuition and fees being historically a very small percentage of the overall budget of public institutions. However, the relatively recent change in this trend may cause many states to review this practice in the future as student-derived revenues become the majority of public institutions' revenue streams.

Five states did not respond to the national survey, including Nevada. SRI researched these independently and found that no state besides Nevada budgeted student-derived fees through the legislature. In review of legislative documents, it did not appear that student-derived fees were accounted for in reducing general fund appropriations for any of the non-responsive states except for Nevada. The one notable state SRI found was Michigan, whose legislature attempts to control the increase in student derived-revenue by rewarding those institutions that stay beneath a tuition increase percentage cap with more general fund appropriations.⁸⁵

⁸⁴ Davis Bell, Julie. *Getting What You Pay For: The nuts and bolts of the higher education legislative appropriations process*. Nov. 2008.

⁸⁵ Jen, Kyle. Memo on University Funding Policy. Wisconsin House Fiscal Agency. 21 Feb. 2012.

Table 17. States that allow institutions to retain student-derived revenues.

Tuition revenues are controlled and retained by individual institutions or campuses.		Tuition revenues are deposited into separate, institutional designated state tuition accounts from which all funds must be appropriated prior to expenditure.
Alabama	Mississippi	Arizona
Alaska	Missouri	California
Arizona	Montana	Kansas
Arkansas	Nebraska	North Carolina
California	New Hampshire	
Colorado	New Jersey	
Connecticut	New Mexico	
Delaware	North Carolina	
Florida	North Dakota	
Georgia	Ohio	
Illinois	Oklahoma	
Indiana	Oregon	
Iowa	Pennsylvania	
Kansas	Rhode Island	
Kentucky	South Carolina	
Louisiana	Utah	
Maine	Vermont	
Maryland	Washington	
Massachusetts	West Virginia	
Michigan	Wisconsin	
Minnesota	Wyoming	

Source: State Higher Education Executive Officers (SHEEO), State Tuition, Fees, and Financial Assistance Policies for Public Colleges and Universities: 2010-11. Please see Appendix Table 1 for extended source notes.

States that have made recent changes

The funding of higher education is the source of many discussions in all states as the past recession has reduced state appropriations and increased enrollments. This section reviews the states that SRI found to have recently changed their treatment of student-derived revenues.

New York

Historically, in New York, the Board of Regents and the Legislature have exercised a great deal of control over the state's public institutions of higher education. SUNY campuses are either state-operated, or, in the case of community colleges, administered by local governments under SUNY's supervision. CUNY, created in 1961 from a backbone of existing institutions, was originally tuition-free for NYC residents, and had traditionally operated more as a community of schools than a unified system. In recent years the CUNY Board of Trustees has managed to exert more control over the system as a whole. Until recently, tuition revenues for SUNY and CUNY were either deposited into separate state accounts or were appropriated as a direct offset of the state general fund, and appropriation authority from the Governor and Legislature was required in order for the systems to expend deposited funds.

The Public Higher Education Empowerment and Innovation Act proposed in 2010 represented an attempt to change this system, allowing both SUNY and CUNY institutions to set their own tuition levels and keep all tuition revenue. Supporters of the bill hoped that this would help the systems avoid sudden increases in tuition that have become all too common in times of economic stress. It was not enacted, but in August 2011 Governor Cuomo signed the NYSUNY 2020 legislation, which, amongst other provisions, provides that SUNY and CUNY campuses may follow a graduated plan for tuition increases (\$300 per year for 5 years) and that tuition revenues will be returned to individual campuses. Unlike the Public Higher Education Empowerment and Innovation Act, NYSUNY 2020 requires legislative approval for tuition increases, and sets a required level of state funding (no less than that of the current year).

There was significant opposition to both acts, including student protests. Opponents' concerns included that state funding would decrease precisely because tuition levels increased, and that these policies would lead by degrees to the privatization of public institutions. Others argue that state contributions have been declining for some years anyway, and that the old system, where all campus-created revenue went back to the state general fund, allowed legislators to treat funds raised by the systems and individual institutions as if they were public monies.⁸⁶

South Dakota

South Dakota is unusual in that it is the only state, and the only polity other than Washington, DC within the continental US, in which tuition revenues are retained at the state level under the direct control of a state-level governing board, the South Dakota Board of Regents. Tuition from all institutions is collected in a central depository. The Board of Regents reserves some of the collected revenue for capital maintenance, repair, and new construction (20% in 2010). As of 2010, funds from central deposits are "earned" back by institutions as they achieve certain

⁸⁶ About SUNY 2020: <http://www.stonybrook.edu/sb/nysuny/overview.html>
New York Governor's SUNY and CUNY Legislation: <http://agb.org/ingram/policy/new-york-governor%E2%80%99s-suny-and-cuny-legislation>
New York Office of Higher Education: <http://www.highered.nysed.gov/swp/#HigherEdinNY>
SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey 2010-2011, survey responses.
Available at: <http://www.sheeo.org/finance/tuit/>

targets set by the board. Individual institutions have the authority to retain revenues from certain board-approved fees, and also from “charges”, which are levied for elective services (as opposed to those mandated by the school). Notably, South Dakota has no community college system, but rather a number of federally funded technical and vocational schools.

Idaho

Up until 2005 higher education institutions in Idaho were only allowed to charge resident students fees a “matriculation fee” to the institution at which they study, much like Nevada. In 2005, a state law was passed allowing only Boise State University, Idaho State University, and Lewis-Clark State College to charge for tuition and to use the revenue generated to pay for instruction. In 2010, the Idaho Legislature passed an amendment allowing the University of Idaho to impose tuition and fees on all students enrolled.⁸⁷ The funds collected by institutions in the higher education system of Idaho generally must be deposited into designated state accounts, and the legislature must approve the expenditure of the funds.⁸⁸

Colorado

Although it had previously appropriated tuition and fee revenues, Colorado has enacted legislation that temporarily modifies this arrangement. For the period FY 2011-12 through FY2015-16, fees will continue to be appropriated, but tuition revenues will be retained under the authority of institutional governing boards.⁸⁹

⁸⁷ The Idaho Legislature. Senate Joint Resolution 101.

<http://www.legislature.idaho.gov/legislation/2009/SJR101.htm>

⁸⁸ Bell, Julie Davis, Blanco et al. *Integrating Higher Education Financial Aid and Financing Policy: Case Studies from the Changing Direction Technical Assistance States*, February 2008; Idaho State Board of Education Web-site: <https://www.boardofed.idaho.gov/>

⁸⁹ Colorado Department of Higher Education, Policies & Procedures, Section VI. Part C, rev. Feb 4, 2011: <http://highered.colorado.gov/Publications/Policies/Current/vi-partc.pdf> SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey 2010-2011, survey responses. Available at: <http://www.sheeo.org/finance/tuit/>

Case studies in student derived revenue

California – a hybrid approach between state systems

As mandated by the 1960 California Master Plan for Higher Education, California state higher education comprises three systems: the University of California (UC), California State University (CSU), and the California Community Colleges System (CCCS). Each system has its own board, and there are 72 local CCCS boards. The California Postsecondary Education Commission (CPEC), established in 1974, is responsible for state-wide coordination, and has an advisory role to the governor and the legislature. Student-derived revenues are handled differently by each of the three systems.

Since 2007 each campus of the University of California system retains the majority of tuition and fees paid by its students. All nonresident tuition is retained at the source campus. However, a current proposal by the UC Office of the President will enable campuses to retain nearly all revenues they generate.⁹⁰ California State University campuses also retain control of student-derived revenues but the funds are accounted for through an appropriations process. California Community Colleges are funded through state general fund appropriations, local property taxes, and a legislative-set student fee, which is deposited with the state. CCCS's revenues are appropriated through the state legislature, and the general fund appropriation is offset by student fee revenue. CCCS's programs are funded through a program-based funding formula, which sets the target allocations. The state apportionment is calculated by the following formula:

State apportionment = target allocation – (property tax revenue) – (98% of fees)⁹¹

Texas – a state where student-derived revenue offsets general fund appropriations

The Texas system of public higher education encompasses 35 general academic teaching institutions (including law schools), with three new institutions emerging by the end of 2011; 50 community and junior college districts; one technical college system with four main campuses; three lower-division state colleges; and nine health-related institutions, which operate a total of eight state medical schools, three dental schools, two pharmacy schools, and numerous other allied health and nursing units. State funds flow to public institutions in a number of ways including direct appropriations through funding formulas and other direct appropriations based on identified needs.⁹²

Only about a fourth of Texas institutions' student-derived revenues are appropriated through the budgeting process. The statutory tuition rates are set by the legislature and are included in the "general revenue-directed funds" along with some of the student fees. The revenue is transferred from the institutions to the state Treasury. The appropriated student-derived revenues offset the general fund appropriation as determined by Texas' higher education funding formula. Institutions can set tuition higher than the statutory rate, and set aside the difference for specific purposes. Fee and tuition revenues that are set-aside for specific

⁹⁰ California State Auditor. Appendix A: University funding sources and methods for budgeting funding to campuses. *University of California: July 2011 Report 2010-105*.

⁹¹ Patrick J. Murphy. *Financing California's Community Colleges*. Public Policy Institute of California 2004. p. 39

⁹² Texas Legislative Budget Board Staff. *Financing Higher Education in Texas: Legislative Primer*. Jan 2011.

purposes are not counted in the calculation of general appropriation funds. During fiscal year 2009 total student revenues were \$4.7 billion, of which \$3.7 billion (78%) were not deposited into the state Treasury. During fiscal year 2009, statutory tuition revenue was 32 percent (\$1.0 billion) of \$3.2 billion of tuition revenue statewide.⁹³

Hawai'i – a hybrid approach within a system

Higher education in Hawai'i is organized under the unitary University of Hawai'i (UH) System, which manages all public graduate, undergraduate and community college campuses in the state. The University of Hawai'i System is governed by a board of 15 regents appointed by the governor and acting through a President. The board controls both policy and management of the system, and student-derived revenues are deposited into state accounts from which they may later be withdrawn.

The board's control over tuition and student fees dates from the 1990s, when, during a time of recession, the state granted UH more control over its own finances. The board raised tuition considerably during the next decade. Because in Hawaii tuition and financial aid policies are linked, this resulted in more state investment in financial aid. It also resulted in more students being granted tuition waivers. Although authority over waivers was given to the president of the UH system, the president also had the authority to delegate this responsibility, with the result that in practice the individual campuses have some degree of autonomy in using them.

Because of the control over waivers, the campuses have some input into the system's financial procedures, although not total control of all student-derived revenue. Local input also comes through the public meetings the Board of Regents holds before all tuition adjustments. This must of course be considered in light of the fact that the UH system is highly centralized and serves a polity with a relatively small population by the standards of most US states.⁹⁴

Tennessee – a state where student-derived revenues are appropriated but do not offset general appropriations

Tennessee public higher education is composed of two systems of higher education: the University of Tennessee institutions governed by the University of Tennessee Board of Trustees, and the state universities, community colleges, and technology centers governed by the Tennessee Board of Regents. There are currently nine public universities, 13 community colleges, and 27 technology centers in Tennessee that served approximately 260,000 students in fall 2011. The Board of Trustees and the Board of Regents set the tuition and fees for the institutions under its control. According to the Tennessee Code Ann. § 49-7-2014, the fees collected by the institution are deposited in the state treasury and credited to a special agency account. Tuition collected by the institutions is appropriated by the legislature through a funding formula; however, student revenue does not offset general funds.^{95,96}

⁹³ Texas Legislative Budget Board Staff. *Texas State Government Effectiveness and Efficiency: Selected Issues and Recommendations*. Jan 2011. pp. 493-508.

⁹⁴ Bell, Julie Davis, Blanco et al. *Integrating Higher Education Financial Aid and Financing Policy: Case Studies from the Changing Direction Technical Assistance States*, February 2008
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⁹⁵ State of Tennessee Budget. Fiscal Year 2012-2013. pp. B-370

New Mexico – a state where the campuses and institutions retain the student-derived revenues

The State of New Mexico Higher Education Department (HED) oversees seven 4-year universities and colleges, eight 2-year community colleges, ten 2-year branch community colleges, four Tribal colleges, and two special schools (the New Mexico School for the Blind and Visually Impaired and the New Mexico School for the Deaf). The HED was created in 2005 after a 2004 task force on higher education found that the state's different institutions were duplicating many courses, programs, and services, and recommended greater coordination of higher education at the state level. Developments since then have led to the creation of the State Master Plan for Higher Education of 2010, which lays out a number of recommendations for coordinating curricula and improving performance and efficiency.

Individual institutions in New Mexico have traditionally had, and retain under the 2010 plan, the authority to keep tuition and fee revenues and spend them at their own initiative. Tuition fees are set by the governing boards of individual institutions, with no explicit state-level restrictions or incentives to minimize increases. This institutional autonomy is somewhat counter-balanced by the HED's authority to review and approve budgets, and to place institutions which fail audits on a "fiscal watch". An institution on this probationary status must submit a plan to the HED to explain how it will address the audit findings.

Although the State of New Mexico State Constitution contains specific provisions placing the financial control of various higher education institutions in the hands of their respective boards of regents, SRI found no specific statement that individual institutions may retain self-generated student-derived income, suggesting that, as in the case of many other states, the traditional model of institutional control occurs except when there is positive legislation or legislative analysis to indicate otherwise.⁹⁷

Evaluating best practice in regards to student-derived revenues

⁹⁶ SHEEO 2010-2011 State Tuition, Fees, and Financial Assistance Survey 2010-2011, survey responses. Available at: <http://www.sheeo.org/finance/tuit/>

⁹⁷ New Mexico Higher Education Department, Annual Report 2010.

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The discussion that follows will evaluate practices in this area by judging their impact on six policy areas that have important consequences for any system of higher education: efficiency, access, sufficiency, quality, accountability, equity and alignment.

The vast majority of states allow their institutions and campuses to keep and control any student-derived revenues. This kind of arrangement could be described as “distributed”, in which fees are managed where they are collected. By contrast, Nevada’s current budget policy (together with that of a few other states) counts nonresident tuition and student fees “first” in the budgeting process. An institution’s fees stay on campus, but—it is argued—have an impact on monies available from the general fund because they are counted as part of the overall level of state support. This kind of system can be described as “integrated”, in which fees at each campus are managed as part of a single, state-supported budget.

These are not two clearly distinct types, as we note in the discussion above there are mixed cases. Furthermore, in many cases fee and tuition rates are set by state boards or state legislatures. As the discussion below will suggest, the incentive structure associated with either a distributed or integrated system is shaped in important ways by the level of fees and tuition, and the degree to which institutions can influence the process by which they are set. For example, rates may be set at such a low level that they limit the incentive to increase enrollment in particular programs, or to compete for out of state students.

While at first glance it may seem that a distributed system has many obvious benefits, and an integrated system several drawbacks, evaluating the impact of each kind of arrangement is complicated, and the balance of benefits will depend upon the broader set of policies and goals embodied in any particular system of public support for higher education. That is why the discussion in this first report will be revisited in the final report, as part of a comprehensive evaluation of present practice and proposed alternatives.

Efficiency: The impact on efficiency of either approach is unclear. On the one hand, it may be argued that under a distributed system an institution is meeting an important market test—the institution has an incentive to grow its own source of revenues by graduating satisfied customers at a competitive price. On the other hand, if an institution is, in its region of the state, an effective monopolist, the only provider of a certain kind of education, it may grow revenues without much improvement in quality or efficiency.

Access: Under a distributed system, an institution has an incentive to lobby the relevant authority for higher fee and tuition rates, which could have an impact on access. Further, if out-of-state tuition rates are especially rich, and if there are out-of-state students available, then there may be a crowding out effect felt by in-state students. In some cases public institutions with international reputations have become largely privatized. This relieves the state of a financial obligation, but unless substantial provision is made for financial aid this development limits access for many in-state residents. On the other hand, having control over revenues that do not automatically count against other sources of support could encourage an institution to enroll more students to increase access.

Sufficiency: Many suspect that a distributed system tends to make available more resources as a whole to higher education. Individual institutions have an incentive to earn more revenues by enrolling students, and the level of state funding, because it is treated separately, is subject to

greater transparency. It has been observed all across the country that declines in general fund support are almost always offset by an increase in fees and tuition. Such declines are more obvious where each source of funds is treated separately. However, the level of state general fund support may be determined by factors having nothing to do with the amount of student-derived revenues available, and how those revenues are treated may have no implications for the level of general fund support.

Quality: A distributed system that provides incentives to compete for new students should have a beneficial effect on quality, but, as noted above, there may be a temptation to raise rates rather than manage costs where students come from a more captive pool. Increased recruitment of out-of-state students does have the effect of making the student body more diverse, enhancing the educational environment. If, in fact, a distributed system has the effect of mobilizing more revenues for higher education, that too could lead to quality improvements. However, more resources should be aligned around new curricula and teaching methods that take advantage of rapid changes now underway in the way higher education is delivered, otherwise new resources may simply postpone the adoption of new practices.

Accountability: As the state share of higher education finance has declined, and fees and tuition have increased, more accountability will be required for the ways in which these fees are spent. The practice in Nevada, where the fees in the self-supported budget are applied to specific purposes, represents a good level of transparency. It is, in principle, easy in a distributed system for fees to be accounted for in a transparent way. The need for accountability explains the practice in those states where fees are retained and controlled by institutions but treated formally as part of the state budget and subject to state appropriation before they can be disbursed.

Equity: Students themselves are private beneficiaries of higher education, but the benefits of their education extend to society as a whole. The mix of student fees and state support that sustain public higher education should reflect society's judgment on the appropriate balance between these two sources of funds. In a distributed system careful accounting is required to make that balance transparent, whereas the balance is more clear-cut in an integrated system.

Alignment: The case for a distributed system is strongest when it comes to aligning curricula and programs with the economic structure of a regional economy. Each institution has good information about local needs, and a distributed system is best able to provide an incentive structure that rewards local initiatives and innovative programs that meet workforce needs.

The implications identified for each policy area suggest that there is no simple answer to the way fees and tuition should be treated. The separation of own source revenues from the state supported budget, as proposed by NSHE, may be desirable. However, careful consideration should be given to those additional steps necessary to ensure that such a change leads to increases in access, quality and efficiency. These might include conditions that require increased student aid, new cost controls, and the adoption of new performance criteria (which are, in any event, being contemplated by NSHE). Such a change would also have to be accompanied by clear accountability.

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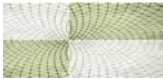
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Appendix B: Entire States with Funding Formulas matrix

State	Type of Institution	Formula currently in use, or will definitely be implemented	Instruction		Operating Expenses		Academic Support	
			Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Alabama	Senior Institutions	Yes	X	enrollment	X	enrollment	X	enrollment
Alabama	Community Colleges	Yes	X	enrollment				
Alabama	Technical Colleges	Yes	X	enrollment				
Arizona	Senior Institutions	Yes	X	credit hours				
Arizona	Community Colleges	Yes			X	enrollment		
Arkansas	2 and 4-year Insitutions	Yes	X	credit hours				
California	UC ¹	To be determined, but likely ¹						
California	CalState	Yes	X	enrollment	X	enrollment		
California	CCC ²	Yes						
Connecticut	Senior Institutions	Yes						
Florida	Senior Institutions	No	X	enrollment			X	enrollment
Florida	Community Colleges	Yes	X	enrollment			X	enrollment
Georgia	2 and 4-year Insitutions	Yes	X	credit hours			X	credit hours
Hawai'i	Community Colleges ³	Yes						

State	Type of Institution	Formula currently in use, or will definitely be implemented	Instruction		Operating Expenses		Academic Support	
			Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Idaho	2 and 4-year Insititutions	Yes	X	enrollment				
Illinois	Community Colleges	Yes	X	credit hours				
				enrollment and sucessfully completed credit hours				
Indiana	2 and 4-year Insititutions	Yes	x	credit hours				
Kansas	Senior Institutions	Yes						
Kansas	Community Colleges	Yes						
Louisiana	2 and 4-year Insititutions	Yes	X	completed credit hours			X	completed credit hours
Maryland	Regional Higher Education Centers		X	enrollment				
Massachusetts	2 and 4-year Insititutions	No	X	enrollment			X	enrollment
Minnesota	2 and 4-year Insititutions	Yes	X	enrollment			X	enrollment
Mississippi	Senior Institutions	Yes	X	enrollment				
Mississippi	Community Colleges	Yes						
Montana	Community Colleges	Yes	X	enrollment	X	enrollment		
New Jersey	Community Colleges	Yes	X	credit hours	X	credit hours		

State	Type of Institution	Formula currently in use, or will definitely be implemented	Instruction		Operating Expenses		Academic Support	
			Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
New Mexico	2 and 4-year Insitutions	Yes	X	credit hours				
New York	Community Colleges ⁴	Yes						
North Carolina	Senior Institutions	Yes	X	credit hours	X	credit hours	X	credit hours
North Carolina	Community Colleges	Yes	X	enrollment				
Ohio	University Main Campuses	Yes	X	completed courses				
Ohio	University Regional Campuses	Yes	X	completed courses				
	Community and Technical Colleges	Yes	X	completed courses				
Oregon	Senior Institutions	Yes	X	enrollment	X	enrollment		
Pennsylvania	Senior Institutions	Yes	X	enrollment			X	enrollment
Pennsylvania	Community Colleges	Yes						

State	Type of Institution	Formula currently in use, or will definitely be implemented	Instruction		Operating Expenses		Academic Support	
			Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
South Carolina	Senior Institutions	Yes	X	enrollment				
South Dakota	Federally funded Technical Schools	Yes	X	enrollment				
Tennessee	2 and 4-year Insititutions	Yes						
	General Academic Institutions	Yes	X	credit hours	X	credit hours		
Texas								
Texas	Health-Related Institutions	Yes	X	enrollment	X	enrollment		
Texas	Community Colleges	Yes	X	contact hours				
Texas	Vocational & Technical Schools	Yes	X	contact hours				
Virginia	2 and 4-year Insititutions	Yes	X	enrollment			X	enrollment
West Virginia	2 and 4-year Insititutions	No	X	credit hours				
¹ See California narrative for discussion of UC funding.								
² See California narrative for discussion of CCC funding.								
² See Hawai'i narrative for discussion of Hawai'i community college funding formula.								
⁴ See New York narrative for a description of the NY CC formula.								

State	Library Support		General Administration		Student Services		Remedial Instruction	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Alabama	X	enrollment	X	enrollment	X	enrollment		
Alabama								
Alabama								
Arizona								
Arizona								
Arkansas	X	credit hours	X	credit hours				
California								
California								
California								
Connecticut								
Florida	X	enrollment	X	enrollment	X	enrollment	X	enrollment
Florida	X	enrollment			X	enrollment		
Georgia	X	credit hours	X	credit hours	X	credit hours		
Hawai'i								

State	Library Support		General Administration		Student Services		Remedial Instruction	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Idaho								
Illinois							X	credit hours
Indiana								
Kansas								
Kansas								
Louisiana								
Maryland								
Massachusetts					X	enrollment		
Minnesota	X	enrollment	X	enrollment				
Mississippi			X	enrollment				
Mississippi								
Montana								
New Jersey								

State	Library Support		General Administration		Student Services		Remedial Instruction	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
New Mexico								
New York								
North Carolina	X	credit hours			X	credit hours		
North Carolina	X	enrollment					X	enrollment
Ohio								
Ohio								
Ohio								
Oregon								
Pennsylvania					X	enrollment		
Pennsylvania								

State	Library Support		General Administration		Student Services		Remedial Instruction	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
South Carolina			X	enrollment				
South Dakota								
Tennessee								
Texas	X	credit hours						
Texas	X	enrollment						
Texas								
Virginia					X	enrollment		
West Virginia								

State	Research		Sponsored Research		Institutional Support		Public Service	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Alabama	X	enrollment	X	enrollment			X	enrollment
Alabama								
Alabama								
Arizona								
Arizona								
Arkansas	X	credit hours					X	credit hours
California								
California								
California								
Connecticut								
Florida	X	enrollment					X	enrollment
Florida					X	enrollment		
Georgia	X	credit hours			X	credit hours	X	credit hours
Hawai'i								

State	Research		Sponsored Research		Institutional Support		Public Service	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Idaho								
Illinois								
Indiana								
Kansas								
Kansas								
Louisiana								
Maryland								
Massachusetts	X	enrollment			X	enrollment		
Minnesota	X	enrollment					X	enrollment
Mississippi								
Mississippi								
Montana								
New Jersey								

State	Research		Sponsored Research		Institutional Support		Public Service	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
New Mexico								
New York								
North Carolina					X	credit hours		
North Carolina					X	cost		
Ohio								
Ohio								
Ohio								
Oregon								
Pennsylvania					X	enrollment		
Pennsylvania								

State	Research		Sponsored Research		Institutional Support		Public Service	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
		30% of previous FY sponsored research expenditures					X	30% of previous FY sponsored public service and non-general fund public service expenditures
South Carolina	X							
South Dakota								
Tennessee								
Texas								
Texas	X	research expenditures						
Texas								
Texas								
Virginia					X	enrollment		
West Virginia								

State	O&M/Physical Plant		General Institutional Support		Utilities/Capital Allowance		Professional Health	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Alabama	X	square footage; cost	X	enrollment; square feet; cost	X	5-year amortized expenditures	X	?
Alabama								
Alabama								
Arizona					X	enrollment		
Arizona								
Arkansas	X	square footage						
California								
California								
California								
Connecticut								
Florida								
Florida	X	square footage; cost; enrollment				utilities: square footage; Major Repairs and Rehabilitation: insured value of buildings		
Georgia								
Hawai'i	X	square footage			X			

State	O&M/Physical Plant		General Institutional Support		Utilities/Capital Allowance		Professional Health	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
Idaho								
Illinois	X	square footage						
Indiana								
Kansas								
Kansas								
Louisiana	X	square footage						
Maryland								
Massachusetts	X	square footage; cost; enrollment	X	cost (allowance per maintenance hour & per grounds keeper hour)	X	cost; square footage		
Minnesota	X	square footage						
Mississippi	X	square footage			X	square footage		
Mississippi								
Montana								
New Jersey								

State	O&M/Physical Plant		General Institutional Support		Utilities/Capital Allowance		Professional Health	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
New Mexico								
New York								
North Carolina	X	credit hours	X	credit hours				
North Carolina								
Ohio								
Ohio	X	square footage ["space"]						
Ohio								
Oregon								
		square footage; replacement value						
Pennsylvania	X							
Pennsylvania								

State	O&M/Physical Plant		General Institutional Support		Utilities/Capital Allowance		Professional Health	
	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver	Based on formula	Formula driver
South Carolina	X	costs; building values; type of construction						
South Dakota								
Tennessee								
Texas	X	square footage			X	square footage; enrollment		
Texas	X	square footage			X	square footage; enrollment	X	enrollment; square footage
Texas								
Texas	X	square footage			X	square footage		
Virginia								
West Virginia								

State	Scholarship		Misc. (driver)
	Based on formula	Formula driver	
Alabama			organized research (enrollment), facilities renewal and replacement (square footage), fringe benefits
Alabama			facilities renewal and replacement (square footage), fringe benefits
Alabama			
Arizona			add .75 staff for every 1 faculty (enrollment)
Arizona			equipment outlay; equalization aid; Capital Aid (enrollment)
Arkansas			traditional minority mission; land grant mission; (1) Economy/Diseconomy of Scale provision for universities with < 3,500 FTE (enrollment)
California			UC negotiates a new funding agreement w/ each governor. Agreement w Gov Brown has not been finalised. typical past metrics incl fulfilling goal of admitting anyone in top 12.5% of CA HS grads, grauation rates, persistence rates, admission of CC transfers (qualified)
California			Funding determined under K-14 system per Proposition 98. 3 possible tests (depending on yearly chnages in economy and General Fund revenues): Test 1—Share of General Fund (39% of GF). Test 2—Growth in Per Capita Personal Income. (Increases prior-year funding by growth in attendance and per capita personal income.) Test 3—Growth in General Fund Revenues. (Increases prior-year funding by growth in attendance and per capita General Fund revenues.)
California			NB Legislature Can Suspend Proposition 98. With a two-thirds vote, the Legislature can suspend the guarantee for one year and provide any level of K-14 funding.
California			may or may not restrict funds as it wishes.
Connecticut	X	enrollment	academic advising; technology support/resources; branch campuses; regional campuses, IFAS, Health Science Centers
Florida	X	enrollment	Medical School enrollment growth (enrollment); offsetting inflation (index)
Florida			AA, AS, College Prep., Time-to-Degree, Postsecondary Adult Vocational, Apprenticeship, Adult High School, General Equivalency Diploma (GED), Adult Literacy, Teacher (EPI) and RN production (degrees and certifications, various programs under the Community College Program Fund.)
Georgia			Fringe Benefits (enrollment): Technology
Hawai'i			weights assigned to the outcomes vary by campus to reflect the mission of that campus

State	Scholarship		Misc. (driver)
	Based on formula	Formula driver	
Idaho			
Illinois			
Indiana			
Kansas		KS BoR governs 4-yrs each 4-yr inst negotiates PERFORMANCE AGREEMENT (Aligned with Foresight 2020 plan) w/ BoR; metrics vary by institution	
Kansas		KS BoR coordinates 2-yrs Each 2-yr and inst negotiates PERFORMANCE AGREEMENT (Aligned with Foresight 2020 plan) w/ BoR; metrics vary by institution	
Louisiana			
Maryland			
Massachusetts			
Minnesota		Enrollment Adjustment (enrollment)	
Mississippi			
Mississippi		Total funding according to "Mid-level" formula: midpoint between student funding at K-12 schools and FTE funding at regional universities. (enrollment)	
Montana			
New Jersey			

State	Scholarship	
	Based on formula	Formula driver
New Mexico		Misc. (driver)
New York		"The basic State financial assistance for community colleges, implementing approved full opportunity programs, shall be the lowest of the following: (i) two-fifths (40%) of the net operating budget of the college, or campus of a multiple campus college, as approved by the State University trustees; (ii) two-fifths (40%) of the net operating costs of the college, or campus of a multiple campus college; or (iii) for the current college fiscal year the total of the following: (a) the budgeted or actual number (whichever is less) of full-time equivalent students enrolled in programs eligible for State financial assistance multiplied by [\$2,260] \$2,122; and (b) up to one-half (50%) of rental costs for physical space." (Source: http://www.suny.edu/Board_of_Trustees/webcastdocs/Amendment%20to%20Part%20of%20NYCRR.t xt)
North Carolina		
North Carolina		
Ohio		
Ohio		
Ohio		
Oregon		
Pennsylvania		
Pennsylvania		Universities can create two indicators which must be approved by the chancellor

State	Scholarship Based on Formula driver	Misc. (driver)
South Carolina		
South Dakota		
Tennessee		
Texas		
Texas		
Texas		
Texas		
Virginia		
West Virginia		