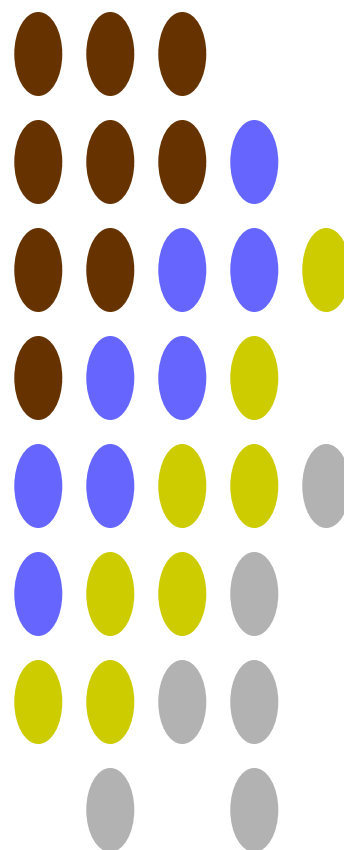




April 16, 2012

Nevada System of Higher Education

Responses to LCB Questions on
the New Funding Model
Proposed by NSHE



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April 4, 2012

Daniel Klaich, Chancellor
Nevada System of Higher Education
Mail Stop 014
2601 Enterprise Road
Reno, NV 89512-1666

Dear Chancellor Klaich:

Thank you for providing the Fiscal Analysis Division with a copy of the Nevada System of Higher Education's alternative funding formula document entitled "*A New Model for Funding Higher Education in Nevada*." After reviewing the document, the Fiscal Analysis Division is requesting the following clarifications and supplemental information. A response no later than Monday, April 16, 2012, would be appreciated in order to include the information in the materials being prepared for the April 25, 2012, meeting of the Committee to Study the Funding of Higher Education in Nevada. The NSHE's response should also be provided to the Committee's consultant, SRI International.

Basic Components

1. In order to better understand how the weights were established by discipline cluster as shown in Appendix A, please provide a copy of the report or other work product the National Center for Higher Education Management Systems (NCHEMS) prepared for the NSHE on the discipline-instructional matrix, which forms the basis for calculating the Weighted Student Credit Hours (WSCH).
2. With regard to projecting WSCH for each year of a biennium, it appears that NSHE is proposing that WSCH be projected as flat to a baseline year for a biennium, e.g. FY 2014 and FY 2015 as flat to FY 2012 or FY 2013. Please confirm if this is a correct interpretation. If WSCH are not to be projected as "flat," by what mechanism will changes to the projected WSCH be incorporated in the formula and budget.
3. To support research, the alternative model proposes an additional weighting of 10 percent applied to upper division and graduate student credit hours at the universities. Please clarify how an adjustment of 10 percent was determined and what it represents in terms of costs not otherwise covered in the alternative's cost

per WSCH of \$132.56. Finally, for each university, please indicate the number of additional WSCH the 10 percent weighting adds.

4. The alternative model proposes a "small institution factor" to support fixed administrative costs of Great Basin College and Western Nevada College. Based upon Appendix C, it appears funding starts at \$1.5 million per year, per institution and then is reduced until it is phased out once the institution reaches 100,000 WSCH. First, please provide the basis for the \$1.5 million starting point. Second, given that the existing funding formula provides similar, small institution factors generally based upon 3,000 student full-time equivalents (SFTE), please explain why the equivalent of 3,333 SFTE (100,000 WSCH) was utilized in the alternative. Finally, please provide the proposed "scaling" that forms the basis for the \$1,108,770 and \$810,450, respectively, for Great Basin College and Western Nevada College.
5. The alternative proposes funding for the two universities to support the operations and maintenance (O&M) of research space. Appendix C reflects \$3.58 million and \$3.22 million respectively, for UNR and UNLV. Please provide the basis for these amounts with a more thorough explanation of how eligible square footage is determined. Additionally, please clarify how O&M would be calculated for DRI if it were no longer included in the O&M component of the funding formula. Finally, please confirm whether there is specific O&M support for the medical, dental and law schools.
6. Under the alternative model, student derived revenues (registration fees, non-resident tuition, miscellaneous student fees) are proposed to be excluded from the determination of the General Fund dollars to be allocated to the seven teaching institutions. Please clarify whether the fee revenues and their associated expenditures are proposed to be reflected in the institutions' state supported operating budgets. Additionally, please clarify how the student derived revenues and expenditures in the medical, dental and law schools' state supported operating budgets are proposed to be treated.
7. Please confirm that the alternative model excludes all credit hours associated with non-resident students, including students enrolled under the Western Undergraduate Exchange (WUE), the Good Neighbor policy, the Children of Alumni policy, etc. and that such hours have been excluded from the FY 2012 WSCH count shown in Appendix C.
8. Based upon the March 23, 2012, email from you to the Board of Regents transmitting the document, it is indicated that when the alternative funding formula was run by the NSHE, a total of \$666 million in General Fund appropriations was projected as "needed to ensure no college lost appropriations." Please explain the basis for this assertion as well as the supporting calculations.

9. As shown in Appendix C of the document, \$13,260,189 in General Fund appropriations would be shifted among the seven teaching institutions in FY 2014 compared to FY 2012 based upon the use of FY 2012 WSCH, the small institution factor and the research O&M adjustment. Since it is indicated that a 4-year implementation phase-in is envisioned, please clarify whether funding adjustments are envisioned at 25 percent per year and whether the transfers occur irrespective of annual changes to the WSCH count.
10. Please provide the calculations that support the FY 2012 General Fund appropriation levels shown in Appendix C for the University of Nevada, Reno (UNR) instructional budget and the related budgets for the Agricultural Experiment Station, Cooperative Extension Service Intercollegiate Athletics, Statewide Programs and the Business Center North. Please provide the same calculations for the University of Nevada, Las Vegas (UNLV) and the Dental School, Law School, Intercollegiate Athletics and Statewide Programs budgets.

Weighted Student Credit Hours (WSCH) - Completed Credit Hours

11. Please clarify whether the model includes only WSCH associated with letter grades of "A" through "D" when calculating the total credit hours and WSCH cost. If grades other than "A" through "D" are included in the calculation, such as "F" and "I" (incomplete), for each institution, please provide the number of FY 2012 WSCH associated with grades other than "A" through "D."
12. Please confirm that the FY 2012 WSCH shown in Appendix C of the document include remedial credit hours completed at Nevada State College, the College of Southern Nevada, Great Basin College, Truckee Meadows Community College and Western Nevada College but exclude them at the two universities. If included in an institution's WSCH count, please provide the number of remedial WSCH for each institution. Additionally, please clarify whether the NSHE's alternative model intends that if a student does not successfully pass a remedial course the first time, a subsequent, successful effort would be counted.
13. Under existing Board of Regents' policy, NSHE professional staff, their spouses, registered domestic partners and their financially dependent children are eligible to receive a financial discount (through a Grants-in-Aid) which, in effect, is offset by the State General Fund. Please clarify whether the FY 2012 WSCH include credit hours funded through Grants-in-Aid to professional staff and their spouses, domestic partners and financially dependent children. If so, for each institution, please provide the number of WSCH included in the FY 2012 calculations.
14. Not all students who enroll and take for-credit courses are seeking a degree or certificate. Please clarify whether the alternative model's WSCH includes credit hours taken by non-degree seeking individuals.

Proposed Performance Funding Pool

Recognizing that the work of the National Governors' Association-sponsored Policy Academy Team's work on the Performance Funding Pool may not be complete, the Fiscal Analysis Division would appreciate responses to the following questions to the extent decisions have been made.

15. Please confirm that the proposed annual funding for the Performance Pool is intended to be in addition to the WSCH-derived funding rather than a carve-out from existing appropriations.
16. As envisioned in the alternative model, please confirm that performance funding is intended to be one-time in nature only, i.e. funding is received for one year and does not become part of an institution's base funding.
17. For the upcoming 2011-13 biennium, what fiscal year will serve as the baseline for any performance metrics adopted for the Performance Pool? Please describe the mechanism by which the NSHE envisions performance funding would be appropriated and distributed to eligible institutions.
18. Please define the grades/terms shown on the bottom of page 9 of the document: AU, AD, NR, X, I, F, U and W.
19. The information on page 8 indicates that the proposed Performance Pool is based upon a point system appropriately scaled to not skew or distort comparable success for each institution, regardless of size. First, please explain how the scaling accounts for differences in NSHE institutions' missions. Second, explain the basis for the point scaling shown in Tables C1 and C2 for certificates and degrees earned. For example, why is an Associate's degree from CSN, GBC, TMCC and WNC worth 1.5 points (Table C2) and a Bachelor's degree at UNLV, UNR and NSC worth 1.0 point (Table C1). Additionally, as shown in Table C2, why are Bachelor's degrees proposed to be worth 2.0 points if awarded by CSN, GBC, TMCC and WNC.
20. Performance funding is proposed for both the "Progression of Remediated Students" and "Student Progression." On page 8, Table A indicates that Nevada State College had 82 and 26 such students, respectively, in FY 2010. However, Table C2 at the bottom of page 8 appears to exclude Nevada State College from being awarded Performance Pool points for either of these metrics. Please clarify why the proposed Performance Pool treats Nevada State College differently. Finally, specific to "Student Progression," please explain why the proposal excludes the universities from this performance metric.

21. With regard to the proposed performance metric of "Transfer students with at least 24 accumulated college-level credits but no associate degree," please confirm that this proposed metric would only apply to resident students who transfer to another NSHE institution.
22. The alternative model proposes awarding a portion of the performance funding based upon the outcome of certificates and degrees. Please clarify whether certificates and degrees are rewarded irrespective of the total time taken to earn them or if there is a scaling which rewards a shorter completion period, e.g. 4 years versus 6 years for a Bachelor's degree and 2 years versus 3 years for an Associate's degree. In addition, based upon Table C1, it appears that institutions would receive performance funding based upon the number of certificates and degrees awarded rather than the positive change in the number of certificates and degrees. Please clarify whether an institution could receive performance funding without improving over the baseline.
23. Please explain why "Sponsored/External Research" performance funding is proposed to be awarded based upon expenditures rather than new awards. If a scaling or value system that links expenditures to performance funding has been developed for this proposed metric, please provide this information. Also, please clarify why the metric should count either expenditures or awards associated with an institution serving as a grantee of local and state government to provide a service such as childcare development, work force development, staff training, etc.

Thank you very much in advance for the NSHE's response to these questions. If you have any questions or concerns regarding providing a response, please do not hesitate to contact me directly at (775) 684-6862.

Sincerely,



Alex Haartz
Program Analyst

cc: Mark Krmpotic, Senate Fiscal Analyst
Rick Combs, Assembly Fiscal Analyst
Julie Waller, Senior Program Analyst
Brian Burke, Senior Program Analyst

QUESTION 1

In order to better understand how the weights were established by discipline cluster as shown in Appendix A, please provide a copy of the report or other work product the National Center for Higher Education Management Systems (NCHEMS) prepared for the NSHE on the discipline-instructional matrix, which forms the basis for calculating the Weighted Student Credit Hours (WSCH).

RESPONSE

Outlined below is the response provided by NCHEMS concerning the development of the instructional matrix utilized in the new funding model prepared by NSHE.

SCH Weighting Matrix

1. Philosophical Underpinnings

Historically the funding formulas used by states to allocate resources to institutions of higher education could be characterized as being

- a. Retrospective not prospective – they have been based on historical practice and data rather than on current and future priorities. As such they have been instruments for institutionalizing the status quo rather than instruments of change.
- b. Activity-based rather than outcomes-based – they have rewarded effort not results, motion not progress.
- c. Cost reimbursement models – the formulas were designed to replicate institutional cost structures. This essentially assumes that what was is what should be. In reality, historical costs reflect the accumulation of institutional decisions based on internal preferences and choices. For example, cost studies invariably yield the result that upper division courses cost more (often much more) than lower division courses. This is a result of course proliferation (and therefore smaller classes) and assignment of high cost faculty to these smaller classes rather than any inherent pedagogical necessity. The point is that history is not an infallible guide to the future.

- d. Overreaching – there are very few instances of states fully funding the formulas that have been put in place. More common are situations in which formulas are funded at much less than 100% (often in the 50-70% range) and institutions continue to function and pride themselves on providing a quality education.
- e. Contributors to blurring the lines between state policy and institutional operations. To be effective and efficient, institutions have to be in a position to utilize available resources in ways that reflect their unique circumstances and professional judgments about most beneficial uses of those resources. A resource allocation model that potentially makes such decisions a matter of state policy can both restrict institutional freedom and misplace the focus of state policy.

It is this latter point, as much as any, that is fostering the move away from purely cost-based models to allocation approaches that treat institutions fairly while simultaneously linking the use of resources to state goals and priorities – putting the emphasis on what states are buying rather than on the activities in which institutions are engaging. This shift is made manifest in the rapidly growing interest in performance funding. Carried to its logical conclusion, this shift would result in all funds being allocated on the basis of outcomes produced. To date, only Tennessee has moved this far along the continuum; in other states that are implementing performance funding the portion of the allocation based on performance is in the 5-25% range.

Within the general framework of the legacy cost-based models, there are two modifications that can be made that better reflect a state policy perspective on the allocation of resources. First, SCH completed rather than SCH for which students enrolled can be made the drivers of the calculations. This reflects a focus on completion at the most micro level, but it is reflective of the broader goal; degree completion cannot be achieved if the constituent courses aren't completed. Nevada has already taken this step.

The second entails a philosophic shift regarding the meaning attached to the weights that populate the SCH matrix. Historically these weights have been based on cost calculations (in some instances calculations made in the distant past and not indicative of current conditions). It is reasonable to view these weights as policy variables rather than cost factors. This is not to suggest that the factors be completely divorced from cost considerations. However, it does suggest that establishing weights need not be a strictly technical exercise; for example, a policy decision can be made to increase the weights for fields aligned with workforce or economic development priorities. This blended approach, one that combines cost-based values with policy judgments – is the approach being suggested for Nevada

2. The Assignment of Numerical Values

Nevada has not conducted a cost study in recent years that can provide a basis for assigning weights to the cells in the matrix. Several other states, however, do conduct such studies on a regular basis, among them Florida, Ohio, Illinois, and Texas. These studies:

- Are conducted using generally similar procedures, procedures documented by NCHEMS in the early 1970's.
- Are used to varying degrees in the resource allocation processes of the respective states – in Illinois not at all, in Texas about 50% of the allocation is formula based, in Ohio more so.
- Yield cost patterns that are similar but with specific weights that vary considerably. For example, all have psychology and several other liberal arts fields weighted at or near 1.0 at the lower division level. All have doctoral engineering weighted much more heavily but with considerable variation – weights vary from less than 5 to more than 16.
- Yield results that lack credibility in some instances – in nontechnical terms, they don't pass the smell test. Examples are doctoral programs in business that carry weights in excess of 20.0. While this may be the cost as calculated (because of small program sizes), cost factors twice as high as engineering or the sciences are hard to justify or reconcile with public policy priorities.

The suggestions for Nevada borrow from the cost studies in the states listed above. The basic architecture is drawn more from the Texas model than other states in that it is based on “clusters of disciplines of generally similar natures rather than treating each discipline separately. Beyond that, the values were established by referencing those from other states but not borrowing wholesale – other states' values were adapted not adopted. The adaption process involved

- Rounding – not including values to two decimal places
- Reducing values for those that are clearly outliers – those that strain credibility
- Reflecting policy priorities attached to STEM and healthcare fields, those that can be argued on the basis of adopted goals.

The proposal should be viewed as a starting point for discussion. Judgment is necessarily involved. The caveat is that changes should be entertained only if a case can be made that the change reflects a policy judgment concerning relative importance to the state.

QUESTION 2

With regard to projecting WCSH for each year a biennium, it appears that NSHE is proposing that WSCH be projected as flat to a baseline year for a biennium, e.g. FY 2014 and FY 2015 as flat to FY 2012 or FY 2013. Please confirm if this is a correct interpretation. If WSCH are not projected as “flat”, by what mechanism will changes to the projected WSCH be incorporated in the formula and budget.

RESPONSE

Your interpretation is accurate. The biennial budget request would be based on actual data from the most recently completed fiscal year. We would anticipate this data would be updated based off preliminary fall information during the Governor’s Recommend phase and actual fall/preliminary spring for the Legislative Approved phase of the biennial budget process.

QUESTION 3

To support research, the alternative model proposes an additional weighting of 10 percent applied to upper division and graduate student credit hours at the universities. Please clarify how an adjustment of 10 percent was determined and what it represents in terms of costs not otherwise covered in the alternative’s cost per WSCH of \$132.56. Finally, for each university, please indicate the number of additional WSCH the 10 percent weighting adds.

RESPONSE

The 10% research adjustment to upper division and graduate credit hours at UNLV and UNR was proposed as a way to address the different cost structure in terms of faculty and administrative overhead at research universities. While there are a number of ways to achieve this end, NSHE’s initial analysis determined that this method would appropriately scale the adjustment based on relative institution size. NSHE looks forward to working with SRI International and the Committee in refining this approach if this initiative is pursued.

The additional 10 percent adjustment to the universities upper division and graduate WSCH generates additional WSCH and funding at UNLV of 57,132 and \$7,573,418 respectively and at UNR of 40,199 and \$5,328,779 respectively.

QUESTION 4

The alternative model proposes a “small institution factor” to support fixed administrative costs of Great Basin College and Western Nevada College. Based upon Appendix C, it appears funding starts at \$1.5 million per year, per institution and then is reduced until it is phased out once the institution reaches 100,000 WSCH. First, please provide the basis for the \$1.5 million starting point. Second, given that the existing funding formula provides similar, small institution factors generally based upon 3,000 student full-time equivalents (SFTE), please explain why the equivalent of 3,333 SFTE (100,000 WSCH) was utilized in the alternative. Finally, please provide the proposed “scaling” that forms the basis for the \$1,108,770 and \$810,450, respectively, for Great Basin College and Western Nevada College.

RESPONSE

As a preface, there are a number of ways to address small institution scale issues and NSHE looks forward to working with the consultant and Committee in refining this objective.

The inclusion of a small institution factor intends to address certain administrative fixed costs that exist at any institution regardless of its size. Generally speaking, these would include functions like a President’s Office, Chief Academic Officer/ Provost’s Office, Controller/ Finance Office, etc. In preparing the model, it became apparent that the smaller institutions (GBC and WNC) did not have adequate weighted student credit hours to fully address these fixed overhead costs.

The figure of \$1.5 million approximates the amount of overhead otherwise not distributed (approximately one half of the smallest FY 12 institutional support budget). By intention, it does not correlate to specific line items, and NSHE would generally recommend against any line item calculation forming the basis for this number as to avoid creating any artificial expenditure plan that would otherwise restrict institutional flexibility.

As indicated in the footnote of the model, the proposed \$1.5 million phases out between 50,000 and 100,000 weighted student credit hours (WSCH). In other words, every

additional WSCH above 50,000 results in a reduction of \$30 in the small institution factor. Note that the cap of 100,000 is weighted student credit hours. Using the projected FY 12 WSCH and projected FY 12 FTE from those two smaller institutions, it was determined that every FTE generated an average of 32.13 WSCH. 3,000 FTE, as used in the existing model, times 32.13 equals 96,390 WSCH, which was rounded to 100,000.

	FY 12 Proj. WSCH	FY 12 Proj. FTE	WSCH/ FTE
GBC	63,041	1,853	34.02
WNC	72,985	2,381	30.65
Total	136,026	4,234	32.13

QUESTION 5

The alternative proposes funding for the two universities to support the operations and maintenance (O&M) of research space. Appendix C reflects \$3.58 million and \$3.22 million respectively, for UNR and UNLV. Please provide the basis for these amounts with a more thorough explanation of how eligible square footage is determined. Additionally, please clarify how O&M would be calculated for DRI if it were no longer included in the O&M component of the funding formula. Finally, please confirm whether there is specific O&M support for the medical, dental and law schools.

RESPONSE

For the purpose of identifying “research space” applicable for use in the alternative formula, research space is defined as facilities directly dedicated to research activities conducted by faculty and professional staff that do not have scheduled classes or otherwise generate student credit hours. The universities provided their current calculated gross square footage of dedicated research space applicable to their respective main appropriation budgets. Research space assigned to their respective recharge units, i.e., professional schools, ICA, S/W, business centers, AES, and CES, were not included in the reported amounts. To determine the value of the reported research space, the total state funded maintained square feet (msf) for each university, less the total funded msf of each of the respective recharge units was divided by the FY 12 O&M budget for each

applicable university to determine a dollar amount per square foot which was applied against the reported research space.

The DRI budget is considered a non-formula budget in the alternative funding model and would be funded for O&M at their current budgeted level. Any adjustments in funding of the O&M function would be dependent on state authorized employee salary adjustments and approved utility rate adjustments. We look forward to working with the committee and its consultant SRI to explore models for DRI that are consistent with the approach in the alternative model and which recognizes its unique mission in the NSHE.

The professional schools of medical, dental, and law are currently funded for their O&M function through a recharge mechanism with their respective universities. UNR and UNLV budget negative expenditures in their O&M functions for the O&M costs associated with their respective professional schools which are appropriated with the off-setting general funds.

QUESTION 6

Under the alternative model, student derived revenues (registration fees, non-resident tuition, miscellaneous student fees) are proposed to be excluded from the determination of the General Fund dollars to be allocated to the seven teaching institutions. Please clarify whether the fee revenues and their associated expenditures are proposed to be reflected in the institutions' state supported operating budget. Additionally, please clarify how the student derived revenues and expenditures in the medical, dental and law schools' state supported operating budgets are proposed to be treated.

RESPONSE

As the new model allocates General Fund dollars only, without any offset to state support from student generated revenues, the current method of budget presentations (including the need for authorization of non-state revenues) would need to be modified. NSHE looks forward to working with the consultant, Fiscal and Budget Division Staff, and other stakeholders to present NSHE budgets in a transparent and easy to review format.

The professional schools are not currently, or proposed to be, funded by a funding formula. These budget accounts would be included as non-formula accounts within the NSHE budget. We anticipate that these budget accounts would be treated in much the same manner as they are currently treated. Additional costs that are anticipated each biennium would be financed through a combination of General Fund support and student

fee revenues. The appropriate mix of General Fund versus student fee support would be reviewed each biennial period.

QUESTION 7

Please confirm that the alternative model excludes all credit hours associated with non-resident student, including students enrolled under the Western Undergraduate Exchange (WUE), the Good Neighbor policy, the Children of Alumni policy, etc. and that such hours have been excluded from the FY 2012 WSCH count shown in Appendix C.

RESPONSE

The student credit hours utilized in the new funding model do not include students enrolled under WUE, Good Neighbor or Children of Alumni. It should be noted that effective July 2011, the fee policy related to Good Neighbor and Children of Alumni was discontinued for new students. However, students that were currently enrolled when the policy was amended were allowed to continue as long as they were continuously enrolled.

QUESTION 8

Based upon the March 23, 2012, email from you to the Board of Regents transmitting the document, it is indicated that when the alternative funding formula was run by the NSHE, a total of \$666 million in General Fund appropriations was projected as “needed to ensure no college lost appropriations.” Please explain the basis for this assertion as well as the supporting calculations.

RESPONSE

In order to avoid any confusion it is important to first clarify that this is not a funding request from the Nevada System of Higher Education, nor is it a hold-harmless calculation. Rather, during internal NSHE discussions the question was posed that, assuming all other variables remain constant, what dollar amount per weighted student

credit hour would result in no institution losing funding from the FY 12 general fund level. The result of that calculation was \$204.99/ WSCH which would require an additional \$193.3 million or a total general fund allocation to NSHE of \$666.6 million.

QUESTION 9

As shown in Appendix C of the document, \$13,260,189 in General Fund appropriations would be shifted among the seven teaching institutions in FY 2014 compared to FY 2012 based upon the use of the FY 2012 WSCH, the small institution factor and the research O&M adjustment. Since it is indicated that a 4-year implementation phase-in is envisioned, please clarify whether funding adjustments are envisioned at 25 percent each year and whether the transfers occur irrespective of annual changes to the WSCH count.

RESPONSE

We have always recognized a mitigation plan may be necessary as part of the implementation of the new model based on the results it generates. As stated, we believe a 4-year implementation period is reasonable, but the extent to which the adjustments are made during that time is dependent upon many factors that require further discussion with the Committee and the Board of Regents.

QUESTION 10

Please provide the calculations that support the FY 2012 General Fund appropriation levels shown in Appendix C for the University of Nevada, Reno (UNR) instructional budget and the related budgets for the Agricultural Experiment Station, Cooperative Extension Service, Intercollegiate Athletics, Statewide Programs and the Business Center North. Please provide the same calculations for the University of Nevada, Las Vegas (UNLV), and the Dental School, Law School, Intercollegiate Athletics and Statewide Programs budgets.

RESPONSE

The Legislature approved General Fund appropriations to UNR totaling \$119,188,549 for FY 2012, which included the consolidated appropriations of the ICA, S/W, AES, CES and BCN appropriation area budgets totaling \$21,402,674. After the close of session, the Interim Finance Committee approved an appropriation transfer of \$4,539,082 from UNR to the School of Medicine (SOM) reducing the UNR appropriation from \$119,188,549 to \$114,649,467 and increasing the SOM appropriation from \$26,886,018 to \$31,425,100. The Legislature appropriated UNLV \$135,911,945 for FY 2012 which included the consolidated appropriations of the ICA, S/W and BCS appropriation area budgets totaling \$9,141,766.

For purposes of the alternative funding formula, the consolidated appropriation area budgets needed to be unconsolidated from UNR and UNLV and shown as separate non-formula appropriation area budgets each with their own respective general fund support. The FY 2012 NSHE State Operating Budget reflects the budgeted expenditure levels for each of the consolidated operating budgets of UNR and UNLV, net of the O&M recharge amounts for the UNR consolidated budgets. Based upon the expenditure levels displayed in the 2012 operating budget, the general fund support for each consolidated budget was determined by accounting for each budget's Legislative approved non-general fund revenues (prior to consolidation) and funding the remaining budgeted expenditures with general funds from the applicable UNR and UNLV main appropriation budgets. Also, recharge revenues applicable to the UNR consolidated budgets, were reallocated from the UNR main budget to each applicable consolidated budget of UNR. This was required due to when the budgets were consolidated by the Legislature the recharge revenues were incorporated into the UNR budget thereby reducing UNR's negative expenditures and the UNR's consolidated budget's O&M expenditures. The reallocation of recharge revenues and expenditures was not required for the UNLV main budget and its consolidated ICA budget for FY 2012 due to the recharge expenditures already being reflected in the UNLV ICA budget. Subsequent to the Board of Regents approved FY 2012 Operating Budget and during preparation of the alternative funding formula, UNLV requested that they be allowed to recalculate their recharge costs for the Law School, Dental School, Intercollegiate Athletics, and Statewide Programs to reflect more accurate current costs. A spreadsheet that reflects the FY 2012 General Fund appropriation levels shown in Appendix C for the requested applicable areas:

See appendix A for a schedule outlining FY 2012 General Fund appropriation levels

QUESTION 11

Please clarify whether the model includes only WSCH associated with letter grades of "A" through "D" when calculating the total credit hours and WSCH cost. If grades other than "A" through "D" are included in the calculation, such as "F" and "I"

(incomplete), for each institution, please provide the number of FY 2012 WSCH associated with grades other than “A” through “D.”

RESPONSE

All grades other than W or grades that are not reported or left blank are included in the WSCH. In other words, in addition to A through D, the WSCH includes audit (AU, AD), X, I, F and U. Definitions of each are included in the response to Question 18.

The "X" grade, in particular, signifies a course that is in-progress. It is included in the WSCH for every term the student is registered. For example, in the case of a dissertation, a student registers for dissertation credits each semester until the dissertation is completed – paying registration fees in each semester. An "X" is given for the grade for each semester the student enrolls in dissertation credits until the dissertation is completed. When the student receives a grade for the dissertation (in a semester in which they registered) the grade will be included in the WSCH for that term. For example, if it takes three semesters to complete a dissertation, the student will register and pay fees for each semester, and the “X” would be included in the WSCH for the first two semesters. Then in the third semester (again in which the student is registered and paid fees) when the student receives a grades, the credits are included in the WSCH.

The following are the WSCH for grades other than A-D.

Institution	Weighted FY12* SCH Grades Other Than A-D
University of Nevada, Las Vegas	67,076
University of Nevada, Reno	66,554
Nevada State College	11,866
College of Southern Nevada	84,503
Great Basin College	4,281
Truckee Meadows Community College	33,663
Western Nevada College	5,332

*FY12 figures are estimates based on Fall 2011 doubled to estimate for Spring 2012 which we do not have SCH for at this time, plus Summer 2011.

QUESTION 12

Please confirm that the FY 2012 WSCH shown in Appendix C of the document include remedial credit hours completed at Nevada State College, the College of Southern

Nevada, Great Basin College, Truckee Meadows Community College and Western Nevada College but exclude them at the two universities. If included in an institution's WSCH count, please provide the number of remedial WSCH for each institution. Additionally, please clarify whether the NSHE's alternative model intends that if a student does not successfully pass a remedial course the first time, a subsequent, successful effort would be counted.

RESPONSE

Remedial credit hours at the universities are excluded from the WSCH used in the new funding model (which is consistent with the funding approach for such courses in the current formula). The proposed funding model includes student credit hours for state-supported courses only.

At the community colleges and state college remedial credit hours are included for each course during a specific term that a student receives a grade other than a W, or a grade that is not reported or left blank.

Institution	Weighted FY12 Remedial Credit Hours (English and/or Math)
College of Southern Nevada	23,164
Great Basin College	3,250
Truckee Meadows Community College	13,188
Western Nevada College	5,288
Nevada State College	2,276

Remedial English and mathematics completions occur in the "Liberal Arts, Math, Social Science, Languages, Other" Cluster in the lower division and are weighted at 1.0.

As true for all coursework; WSCH associated with repeat coursework would be counted.

QUESTION 13

Under existing Board of Regents' policy, NSHE professional staff, their spouses, registered domestic partners and their financially dependent children are eligible to receive a financial discount (through a Grants-in-Aid) which, in effect, is offset by the State General Fund. Please clarify whether the FY 2012 WSCH include credit hours funded through Grants-in -Aid to professional staff and their spouses, domestic

partners and financially dependent children. If so, for each institution, please provide the number of WSCH included in the FY 2012 calculations.

RESPONSE

The question indicates that existing Board policy provides that NSHE professional staff, their spouses, registered domestic partners and their financially dependent children are eligible to receive a financial discount (through a Grant-in-Aid) which, in effect, is offset by the State General Fund. NSHE disagrees with that description. Grants-in-Aid is not a fee waiver program, but a source of payment for a portion of the course fees that are imposed. The registration fees/surcharges imposed on an individual receiving a Grant-in-Aid is the same as other students taking a similar course. Therefore, for a class taken through a Grant-in-Aid, the fee revenues are deposited, at no financial discount, to the institution where the student attends the class.

It should be noted that student credit hours taken through Grants-in-Aid are included in the calculation of student FTE (full-time equivalent) enrollment which is a primary driver in the current higher education formula.

Course completions under Grants-in-Aid are included in the weighted student credit hour calculations as provided in the new funding model. However, the specific credits associated with Grants-in-Aid cannot be identified because NSHE does not track this information through the student data warehouse. If this information is considered an important component to the funding formula discussion, this could be done, but only through a manual process that would require allocating significant resources to accomplish, which could not be completed by the deadline identified for response to this request.

QUESTION 14

Not all students who enroll and take for-credit courses are seeking a degree or certificate. Please clarify whether the alternative model's WSCH includes credit hours taken by non-degree seeking individuals.

RESPONSE

Yes, the alternative funding model's WSCH does include credit hours for courses taken by non-degree seeking students. As is the case with the current formula, NSHE

institutions receive funding for the enrollment of non-degree seeking students in state supported courses. That philosophy is no different under the alternative model – the difference is the completion of the course instead of enrollment.

QUESTION 15

Please confirm that the proposed annual funding for the Performance Pool is intended to be in addition to the WSCH-driven funding rather than a carve-out from existing appropriations.

RESPONSE

In order to provide the institutions with incentives to continue progress in advancing state goals and to promote increased performance, ideally, additional state funding should be provided to finance the Performance Pool in addition to the funding provided through the weighted student credit hour mechanism.

QUESTION 16

As envisioned in the alternative model, please confirm that performance funding is intended to be one-time in nature only, i.e. funding is received for one year and does not become part of an institution's base funding.

RESPONSE

NSHE views performance funding as reoccurring one-time funds. A pool of funds to reward performance would be available each year. Institutions would be eligible to receive funding from the pool based on their level of performance each year. However, the funds earned by institutions from the performance pool would be considered one-time and would not become a part of an institution's base funding.

QUESTION 17

For the upcoming 2011-13 biennium, what fiscal year will serve as the baseline for any performance metrics adopted for the Performance Pool? Please describe the mechanism by which the NSHE envisions performance funding would be appropriated and distributed to eligible institutions.

RESPONSE

As indicated in the document titled, “A New Model for Funding Higher Education in Nevada,” the performance model is a work in progress. At this time a fiscal year that will serve as the baseline year for any outcome metrics used in the Performance Pool has not been identified, nor has the mechanism for appropriating and distributing funds been identified. The version of the performance model that was included in *A New Model for Funding Higher Education in Nevada*,” was a **draft** that will continue to evolve through continued conversations with the Board of Regents, Legislative Committee, its consultant SRI, System staff and through the work of the NGA Policy Academy.

QUESTION 18

Please define the grades/terms shown on the bottom of page 9 of the document: AU, AD, NR, X, I, F, U and W.

RESPONSE

AU/AD	Audit
NR	Not reported – assigned by registrar, pending faculty submission of final grade
X	Continuing course (e.g. research projects or courses extending beyond one semester such as a dissertation)
I	Incomplete
F	Failure

U	Unsatisfactory
W	Withdrawal

QUESTION 19

The information on page 8 indicates that the proposed Performance Pool is based upon a point system appropriately scaled to not skew or distort comparable success for each institution, regardless of size. First, please explain how the scaling accounts for differences in NSHE institutions' missions. Second, explain the basis for the point scaling shown in Tables C1 and C2 for certificates and degrees earned. For example, why is an Associate's degree from CSN, GBC, TMCC and WNC worth 1.5 points (Table C2) and a Bachelor's degree at UNLV, UNR and NSC worth 1.0 point (Table C1). Additionally, as shown in Table C2, why are Bachelor's degrees proposed to be worth 2.0 points if awarded by CSN, GBC, TMCC and WNC.

RESPONSE

As indicated in the document titled, "A New Model for Funding Higher Education in Nevada," and in the response to Question 17 above, the performance model is a work in progress that will continue to evolve through continued conversations with the Board of Regents, Legislative Committee, System staff and through the work of the NGA Policy Academy.

The outcome data is scaled so it is comparable to the extent possible across variables. Depending on the variable it is scaled up or down. The raw outcome is multiplied by the scale indicated on the table – it is not intended to account for an institution's mission. Rather, it is used so that outcomes may be comparable when assigning points.

The scaling factor for degrees awarded increases with level of the award. For example, the base variable in the university/state college pool is the bachelor's degree – scaled at 1.0. The master's and doctoral degrees are higher level awards and are scaled accordingly at 1.25 and 1.5. At this time we are not certain that 1.25 and 1.5 are appropriate scaling factors – as our discussions continue we expect that scales will be reviewed and possibly revised.

The bachelor's degree in the community college pool was scaled at 2.0 with respect to the certificate as the base variable. The variables are scaled *within* each performance pool – it is not our intent to scale variables across pools – therefore the scaling in the university pool is not comparable to the scaling used in the community college pool.

The scaling of variables is a complex issue that will continue to evolve as the model is further vetted. The Performance Pool model is likely to change considerably as NSHE continues its work with the NGA Policy Academy and we gain a better understanding of best practices used in other states with experience in the use of scaling for performance purposes.

QUESTION 20

Performance funding is proposed for both the “Progression of Remediated Students” and “Student Progression.” On page 8, Table A indicates that Nevada State College had 82 and 26 such students, respectively, in FY 2010. However, Table C2 at the bottom of page 8 appears to exclude Nevada State College from being awarded Performance Pool points for either of these metrics. Please clarify why the proposed Performance Pool treats Nevada State College differently. Finally, specific to “Student Progression,” please explain why the proposal excludes the universities from this performance metric.

RESPONSE

“Progression of Remediated Students” and “Student Progression” are included in Table A because initially we planned on putting NSC in the community college pool. The figures are there in case it is recommended to move them again, which is well possible given that this is work in progress as indicated above. NSC has been an outlier that is not a perfect fit in either the university or community college pools.

The 82 for “Progression of Remediated Students” and 26 for “Student Progression” are not included for NSC in the university/state college pool, because so far we have operated from the general premise that inside of each pool institutions would be measured on the same outcomes. In the case of the university/state college pool those outcomes included degrees awarded (all levels) and sponsored project expenditures only. It is possible that too will change as the performance pool continues to evolve.

“Student Progression” was not included in the university/state college pool because at the universities and state colleges, we believe that it is appropriate to measure and reward the institutions for degree completions.

QUESTION 21

With regard to the proposed performance metric of “Transfer students with at least 24 accumulated college-level credits but no associate degree,” please confirm that this proposed metric would only apply to resident students who transfer to another NSHE institution.

RESPONSE

One of the missions of community colleges is to enable students to transfer credits to a four-year institution for use towards a bachelor’s degree. Therefore, the metric is not limited to resident students as the community colleges are fulfilling that mission whether the students transferring are residents or non-residents.

QUESTION 22

The alternative model proposes awarding a portion of the performance funding based upon the outcome of certificates and degrees. Please clarify whether certificates and degrees are rewarded irrespective of the total time taken to earn them or if there is a scaling which rewards a shorter completion period, e.g. 4 years versus 6 years for a Bachelor’s degree and 2 years versus 3 years for an Associate’s degree. In addition, based upon Table C1, it appears that institutions would receive performance funding based upon the number of certificates and degrees awarded rather than the positive change in the number of certificates and degrees. Please clarify whether an institution could receive performance funding without improving over the baseline.

RESPONSE

For the purposes of the Performance Pool, points for degrees and certificates awarded are allocated irrespective of the time to degree taken by individual students. We are not aware of a performance model that includes an outcome based on time to degree and as a result it was not a measure used in the Performance Pool. The mechanics of the Performance Pool continue to be a work in progress with a variety of stakeholders, including the NGA working group, and NSHE looks forward to working with all interested parties in refining this model.

QUESTION 23

Please explain why “Sponsored/External Research” performance funding is proposed to be awarded based upon expenditures rather than new awards. If a scaling or value system that links expenditures to performance funding has been developed for this proposed metric, please provide this information. Also, please clarify why the metric should count either expenditures or awards associated with an institution serving as a grantee of local and state government to provide a service such as childcare development, work force development, staff training, etc.

RESPONSE

The Performance Pool outcome “Sponsored/External Research” uses expenditures rather than awards because expenditures is the metric used most commonly in measuring research activity. For example, a grant may be awarded in year 1 for \$50 million dollars, but is expended over a five year award period in varying amounts – e.g. \$5 million in year 1, \$5 million in year 2, \$10 million in year 3, \$10 million in year 4, \$20 million in year 5. Until an award is expended it is difficult to accurately show progress towards meeting the goals or benchmarks delivered in the grant.

Tennessee scaled research by dividing expenditures by 20,000. In the draft Performance Pool model, research expenditures are divided by 100,000. Scaling for research will continue to evolve as the discussion of the Performance Pool continues.

“Sponsored/External Research” expenditures included all funding categories (e.g. federal, federal pass through, state, local, private for profit, and private non-profit) with the exception of federal financial aid. The state and local portion of expenditures tends to be proportionally low; however, at this point in our discussions of the performance pool, we have not contemplated nor do we see a compelling rationale for excluding any categories.

Appendix A

General Fund Appropriation Levels FY2012					
Area	FY 2012 Oper Budg Exp Levels	FY 2012 Oper Budg Gen Fund	FY 2012 Oper Budg Non-GF	FY 2012 Recharge * Allocation	FY 2012 Alt Model Gen Fund
Intercollegiate Athletics - UNR	3,662,849	3,662,849	0	1,187,395	4,850,244
Statewide Programs - UNR	2,642,428	2,642,428	0	614,477	3,256,905
Cooperative Extension Service	8,635,426	6,729,407	1,906,019	730,762	7,460,169
Agricultural Experiment Station	6,142,696	4,613,011	1,529,685	346,247	4,959,258
Business Center North	1,828,181	1,828,181	0	0	1,828,181
University of Nevada, Reno	153,754,751	95,173,591	58,581,160	(2,878,881)	92,294,710
Total	176,666,331	114,649,467	62,016,864	0	114,649,467

* Recharge amounts as reflected in the BASN 310 report prior to consolidation

General Fund Appropriation Levels FY2012					
Area	FY 2012 Oper Budg Exp Levels	FY 2012 Oper Budg Gen Fund	FY 2012 Oper Budg Non-GF	FY 2012 Recharge ** Adjustment	FY 2012 Alt Model Gen Fund
Intercollegiate Athletics - UNLV	6,492,671	6,492,671	0	496,155	6,988,826
Statewide Programs - UNLV	819,694	819,694	0	1,682,515	2,502,209
Business Center South	1,583,585	1,583,585	0	0	1,583,585
University of Nevada, Las Vegas	226,573,541	127,015,995	99,557,546	(3,117,774)	123,898,221
Sub-Total	235,469,491	135,911,945	99,557,546	(939,104)	134,972,841
Law School	12,057,501	6,570,754	5,486,747	338,369	6,909,123
School of Dental Medicine	13,278,700	6,404,551	6,874,149	600,735	7,005,286
Sub-Total	25,336,201	12,975,305	12,360,896	939,104	13,914,409
Total	260,805,692	148,887,250	111,918,442	0	148,887,250

** Recharge amounts as recalculated by UNLV after operating budgets approved by the Board of Regents for FY 2012

NSHE response to Fiscal Analysis Division request for information dated April 6, 2012.

QUESTION 1

A number of states with high percentages of low-income and/or adult students (i.e., Tennessee, Texas, Ohio and West Virginia) financially reward colleges and universities based on their ability to graduate low-income and/or adult students. The financial rewards or incentives are part of these states' performance-based funding formulas (in the form of specific outcomes or metrics). Under NSHE's proposed funding formula, colleges and universities would not be rewarded for graduating low-income and/or adult learners. Nevada has large numbers of low-income students (either measured by Pell eligibility or the percent of students receiving free or reduced price lunch) and adult learners. Please explain your rationale for not including a low-income and/or adult learner metric (or weighting scheme) in the formula.

RESPONSE

The Performance Pool is a work in progress and this may be an area that can be added as a metric in the future, including an incentive for graduating low-income and/or adult learners. As this information is currently not part of the student information database, should a determination be made to measure this criteria a restructuring of NSHE data collection would be necessary.

QUESTION 2

According to APPENDIX C (p. 10), \$110,698,804 – or approximately 25 percent of the total general fund appropriations to NSHE – would be exempt from NSHE's performance-based model for funding higher education. These exempted funds support 19 non-formula units within NSHE. In the opinion of NSHE, could the state's

higher education and economic development policy objective be met more effectively by creating specific performance-based models for some or all of NSHE's non-formula appropriation AND/OR a general performance-based framework for some or all of NSHE's non-formula appropriations. For example, specific performance-based models could be developed to replace the existing non-formula processes for funding medical, legal and dental education. As it relates to the second approach, a general performance-based framework could be developed that better aligns the efforts of non-formula units and formula units (campuses) in accomplishing the state's and NSHE's larger objectives. For instance, to what extent could (should) the funding of System Administration be linked to the overall performance (per the outcomes proposed in APPENDIX B) of NSHE's eight institutions of higher education? To what extent could (should) the funding of intercollegiate athletics be linked to the overall performance (also per the outcomes proposed in APPENDIX B) of those institutions that receive appropriations for athletics? While it is understood that non-formula units perform certain specialized activities, please identify those non-formula units (by priority) that, in the opinion of NSHE, would best meet the state's and NSHE's objectives through a performance-based approach (either through a specific performance-based model or a general performance-based framework).

RESPONSE

The funding model that we proposed deals with equitable and transparent funding for the teaching mission of the NSHE and as such is limited to those functional areas and appropriations. Nothing in the proposed model limits the ability of the Governor or the Legislature to consider adjustments to non-formula budget lines should there be a determination that the performance as measured by agreed upon metrics is not satisfactory.

QUESTION 3

NSHE's proposed performance pool methodology (APPENDIX B) uses methodology based on Tennessee's funding formula. As stated in the proposal, Tennessee uses two performance pools: a university pool (which contains nine institutions) and a community college pool (which contains 13 institutions). Because of the differing missions and Carnegie classifications types within the university pool (Tennessee has three university main campuses and six regional comprehensive campuses), the Tennessee funding model weighs outcomes differently (i.e. bachelor's degrees, master's degrees, doctoral degrees, student progression, etc.) depending on institutional mission. Has NSHE investigated the possibility of weighting outcomes differently (according to institutional mission and/or Carnegie classification) within

each pool to allow for more equitable competition of performance funds? If so, what have been the findings?

RESPONSE

The Performance Pool as presented in the document titled, “*A New Model for Funding Higher Education in Nevada*,” is a work in progress. At the time the document was released, while we were aware of Tennessee’s use of weights, we had not appropriately vetted the issue and therefore, felt it was premature to include it in the document. Since that time, we have started discussing how weights may be used in the NSHE Performance Pool. We anticipate that as our discussions progress and the Performance Pool model continues to evolve, weights may be included. The NSHE recognizes the impact of weighting can be considerable, and will continue to discuss the option as the model evolves.

NSHE response to Fiscal Analysis Division request for information dated April 9, 2012.

QUESTION 1

Please clarify whether the FY 2014 distribution of General Fund appropriations identified in Appendix C includes each institution's current state support for O&M of physical plant.

RESPONSE

No, the General Fund appropriations for all of the NSHE formula budgets, which includes the current state support for the O&M function as well as the other functional areas, i.e., Institutional Support, Academic Affairs, etc., is projected for FY 2014 but at a different support level than funded in FY 2012. Some formula budgets are projected to receive less General Funds in FY 2014 than in FY 2012 and the institutions will need to reduce their General Fund supported functional expenditures, including O&M, and possibly fund any additional functional expenditures with other revenue sources.

QUESTION 2

With regard to the proposed treatment of non-resident students in the alternative funding formula, should not these (non-resident) weighted student credit hours and revenues be included in the funding formula to encourage the institutions to recruit out-of-state students?

RESPONSE

No, we do not agree with the stated proposition or the attendant inclusion of WSCH. One of the most important components of the new funding model from NSHE's perspective is the ability for institutions to retain 100 percent of revenues generated by students.

Without an offset to the amount of General Fund support provided to that institution by the state. NSHE believes that the current funding formula does not provide an incentive

for institutions to recruit out-of-state students since the amount generated from non-resident tuition revenues directly reduces the amount of General Fund support provided to the institution. By eliminating the direct offset of General Fund support to an institution based on the level of non-resident tuition revenues, NSHE believes this will encourage institutions to recruit an appropriate number of out-of-state students and drive decisions in a number of areas including whether WUE or non-WUE out-of-state students should be recruited. This component of the new funding model would also eliminate the perception among students that increasing fees does not provide any tangible benefit to students, since the additional revenue generated offsets General Fund support at the institution where the students are enrolled.

Since student fee revenues in the new funding model would no longer be utilized to offset state support at each institution, it was assumed that the State would not want to participate in financing the cost of educating non-resident students. Under the new funding model, non-resident completions would be financed through the fee revenues generated by those students, not by state support generated through the weighted student credit hours mechanism.

