



# HCM Strategists

Nevada System of Higher Education  
Ad Hoc Committee on Higher  
Education Funding  
April 26, 2024

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# Acronyms used in this presentation

Acronym	Definition
CC	Community College
CTE	Career and Technical Education
FAFSA	Free Application for Federal Student Aid
FTE	Full-Time Equivalent
HCM	Our consulting firm, no longer an acronym
NSHE	Nevada System of Higher Education
O&M	Operations and Maintenance

Acronym	Definition
OBF	Outcomes-Based Funding
PP	Performance Pool
R1	Research I (Universities w/ high research activity)
RN	Registered Nurse
SCH	Student Credit Hour
URM	Underrepresented Minority
WSCH	Weighted Student Credit Hour



# Summary of Interviews and Institutional Recommendations

# Direct Stakeholder Input



## Stakeholder Interviews

- HCM conducted interviews with 31 stakeholders.
  - All members of Ad Hoc Committee
  - Institutional stakeholders - across various levels/positions
  - Other policymakers - including individuals involved in original formula development
- Gain perspectives on goals and priorities for higher education
- Evaluate how current funding structure aligns to goals and potential areas for improvement



## Institutional Recommendations

- Institutions also submitted written comments/ recommendations on adjustments/changes to various components of the funding model.
- 102 “specific” comments received.

*The formula review process has included several opportunities for direct stakeholder input.*

# Key Themes

## 1) Goals and Priorities (Interviews)

- Overall, interviewees noted state priorities and shared goals for higher education are not clearly defined/elevated through a common agenda
- Asked what they believed the primary goals to be, they shared some common priorities:
  - Creating an educated workforce,
  - Fostering and supporting a diverse economy,
  - Increasing the number of individuals who earn degrees and certificates in high-demand/high-need fields (e.g., nursing/healthcare, teaching)

## 2) Overall Funding/State Support for Higher Education (Interviews)

- Overall, interviewees believe state support is not adequate
- Asked to elaborate, they identified some shared perceptions:
  - Funding is not sufficient to support underserved populations
  - Low state funding has implications for affordability
  - Funding is not provided for non-credit programs or summer courses
  - Funding is not sufficient to competitively recruit and retain faculty

# Key Themes

## 3) Formula Components (Interviews + Institution Feedback)

- Interviews and institution feedback elevated components of the funding model for additional review/discussion
- While there was a significant number of comments, they can be grouped these into three overall categories:
  - **Student attributes:**
    - Formula does not reflect costs of educating students from underserved backgrounds
  - **Weighted Student Credit Hours (WSCH):**
    - Weights don't accurately reflect cost
    - Every-other-year counting
    - Lack of inclusion of summer
  - **Performance Pool:**
    - Little support for it in current structure
    - Carve-out of base is a concern
    - Does not create true incentives



# Considerations for Including Student Attributes



# Student Attributes

Concerns elevated from interviews/institution feedback

- Current funding model does not serve specific populations well, notably part-time students
- There is a need to reflect the costs associated with the additional support/services for non-traditional students, such as:
  - adult learners
  - rural
  - first generation
  - low income
  - academically underprepared
  - underrepresented minority

**Suggestions elevated from interviews and institution feedback:**

- **Account for part-time students**
- **Include weights for priority populations**

# Student Attributes

## HCM Analysis

- Current Weighted Student Credit Hour (WSCH) reflects the variation in costs across programs and levels of instruction but does not account for the costs of serving students with different needs.
- Including “up front” support for institutions that factor in the costs associated with serving certain students is a best practice.

**Recommendation:** Create a separate enrollment-based portion of the formula that uses both full-time equivalent FTE and headcount enrollment and incorporates weights for Pell recipients and underrepresented minorities (URM)

- Includes part-time students and “W” students who are not counted in WSCH
- Provides additional support for Pell and URM. (While other populations were identified by institutions for consideration, these two populations are aligned with the populations included in performance pool and are populations for whom consistent data are available.)
- Simpler approach than incorporating adjustments or recommended adjustments to WSCH



# Considerations for Weighted Student Credit Hours

# Weighted Student Credit Hour (WSCH)

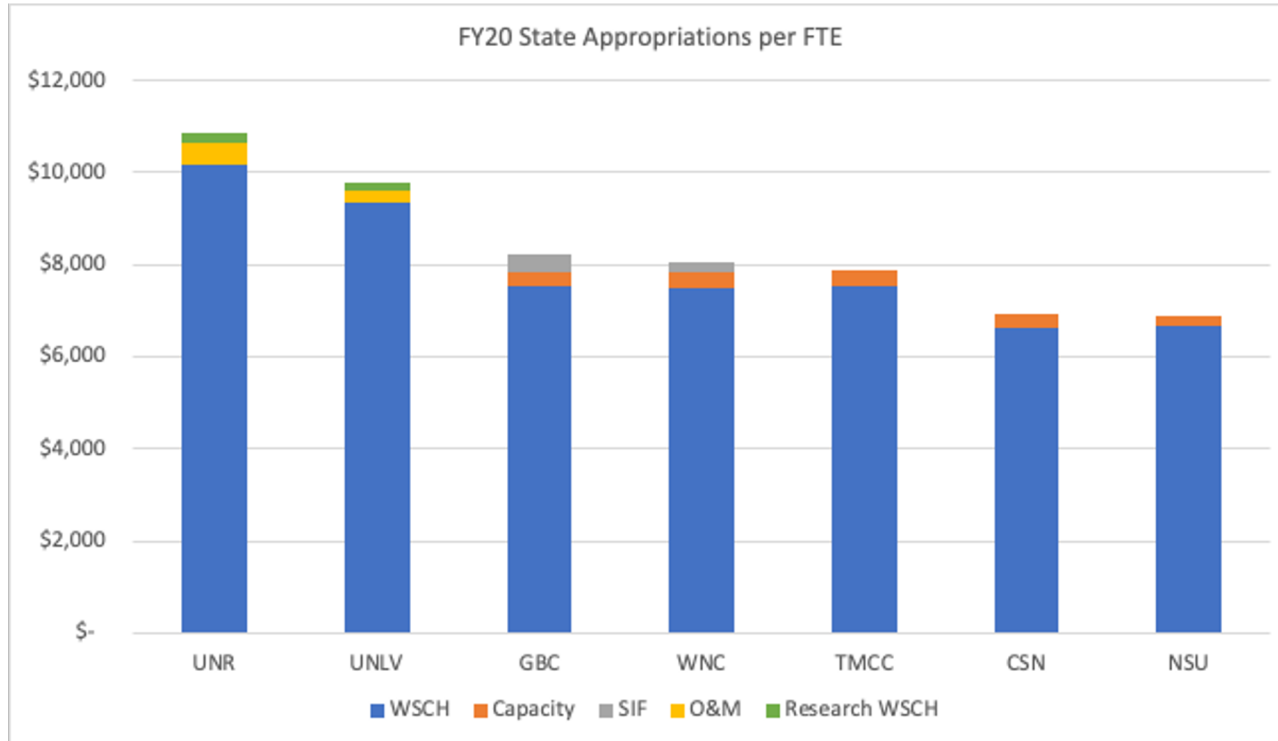
## Concerns elevated from interviews/institution feedback

- Weights don't accurately reflect cost of delivering different programs
- WSCH doesn't capture all/enough students, perpetuates inequalities
- WSCH does not include students enrolled during summer term
- Every-other-year counting for the formula creates a disconnect between costs and resources

## Suggestions elevated from interviews/ institution feedback

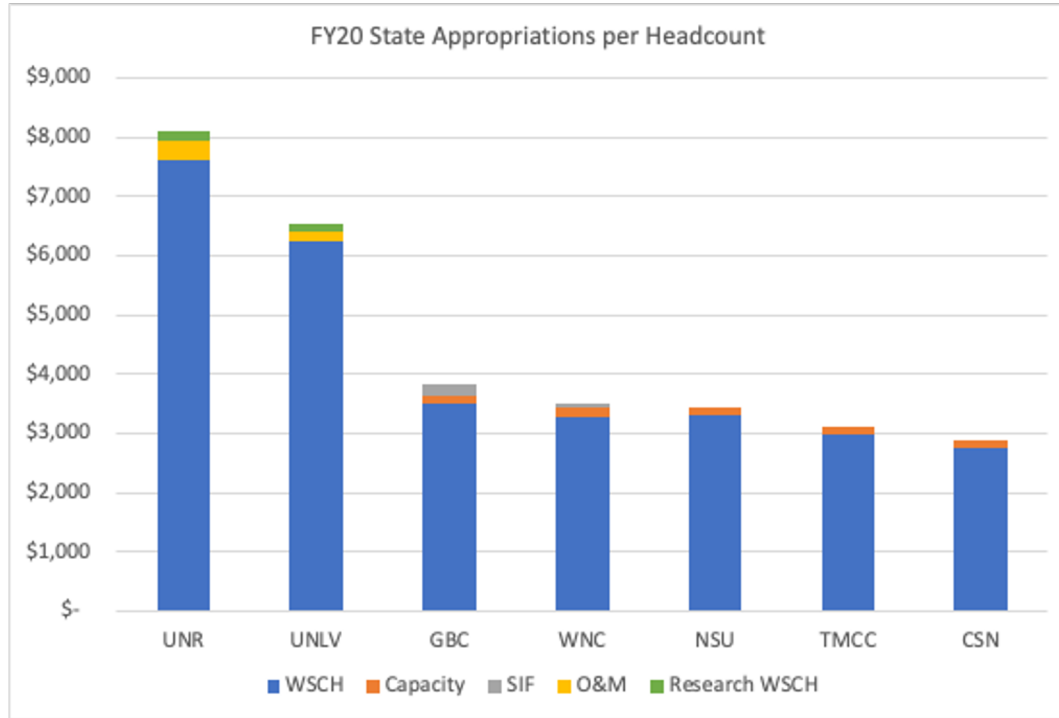
- Count all summer credit hours
- Conduct a cost study to more accurately reflect costs
- Increase weights of career and technical education/graduate education/nursing

# Variation in funding per FTE is driven primarily by program mix at institutions



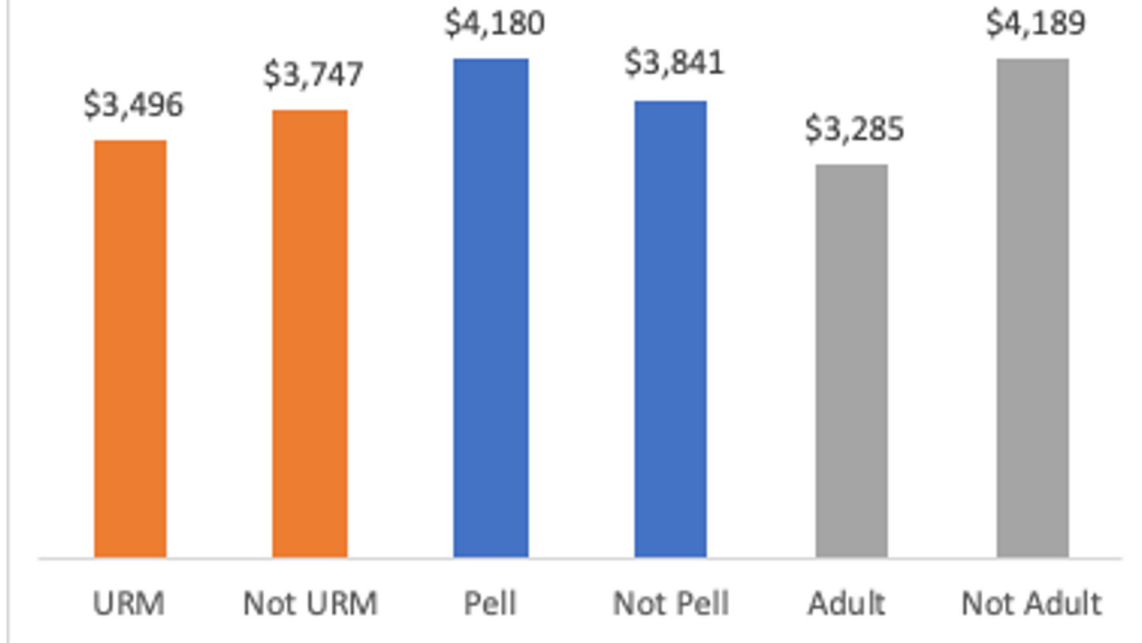
- Non-WSCH portions of the formula (SIF, O&M) make relatively small adjustments to overall funding.
- The variation in the blue bars does not inherently imply inequities; it reflects the different program mixes at those institutions, as intended by the WSCH design.

# Emphasis on WSCH creates larger gaps in funding per student (headcount)



- Institutions with fewer full-time students and fewer upper-level or graduate courses receive much less per student.
- This is the model working “as designed.”
- However, both FTE and headcount are drivers of institution’s costs; both should be accounted for in some way.
- Factoring in headcount will help close some of these funding gaps.

FY20 State Appropriations per FTE at Institutions  
Attended by the Average Adult, URM, and Pell Students



- Allocating by WSCH can generate inequities in access to state funds when disaggregated by student characteristics, due to different attendance patterns.
- URM and adult students are more likely to attend community colleges, which have lower per FTE state appropriations.
- The R1s have the highest rates of Pell students in NV; CCs typically enroll many low-income students, but they may not file the FAFSA to receive Pell.
- A funding formula should not necessarily close these gaps, but the state must consider the impact given the higher cost of helping these students succeed.

# Weighted Student Credit Hour

## HCM Analysis

- Some of the recommendations for cost adjustments are already included in the existing WSCH structure
  - Career and Technical Education credits receive a 4.0 or 4.5 weight
  - Graduate education credits are weighted higher (these programs also typically have higher tuition rates).

## Recommendations:

Include headcount /enrollment with adjustments for student attributes (as previously reviewed)

Review nursing program costs in light of state needs and goals

Include summer credit hours in WSCH

Do a 3 year average for WSCH to avoid odd incentives of "every other year" counting for the year of measure.



# Cost Study: Recap

## Limitations of Comprehensive Cost Studies (recap): Both practical and conceptual

- Unweighted hours or student headcounts
- Weights based on student characteristics
- Weights based on priority disciplines
- Targeted analysis related to a specific goal or action

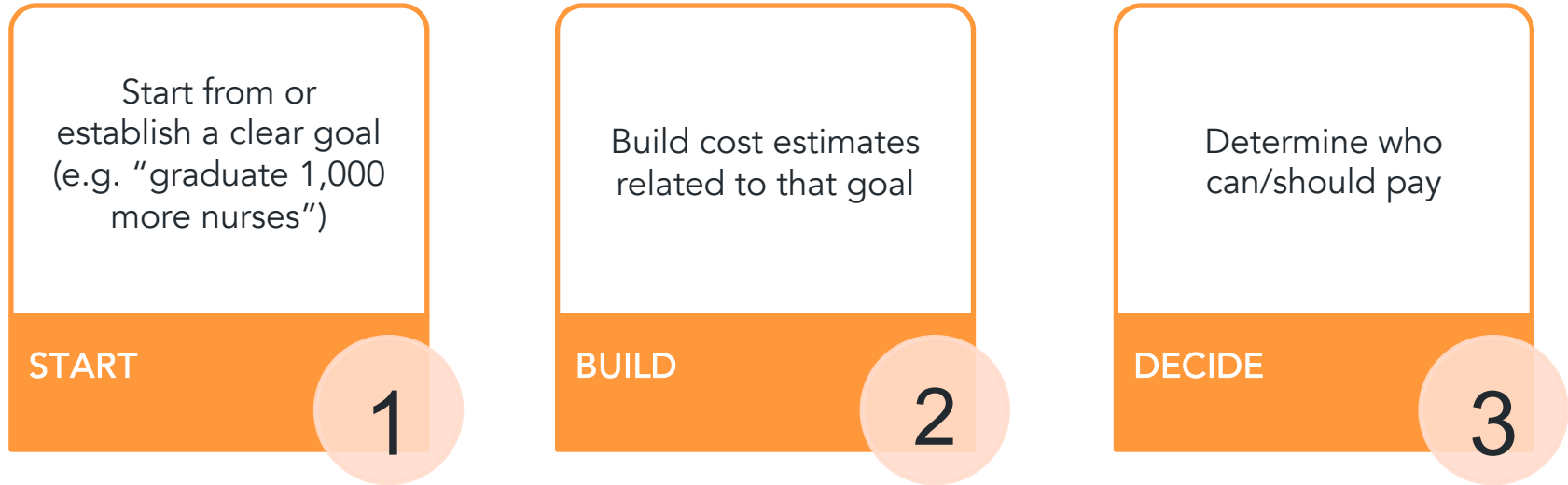
## Alternatives to Comprehensive costs studies (recap):

- Not well suited to larger, modern universities with interdependent disciplines, graduate/undergraduate mix, research public service missions
- Historical costs are not necessarily strategically aligned with state and workforce needs
- Can reproduce historical inequities due to underrepresentation of women, minority, low-income student in higher cost programs

# Study of Nursing Costs and Goals

Nursing has been identified as an area of need for the state. Understanding the costs associated with expanding nursing programs can help the state strategically invest to address shortages. But institutional costs are only part of the equation.

**A study of costs and goals should:**



# Nursing Costs and Goals



Studies typically show costs for Registered Nursing (RN) programs higher than:

- Most other undergraduate health professions programs
- Most non-health professions
- Non-RN nursing programs (e.g., bachelor's capstone for existing RN)



Drivers of costs should be differentiated in the analysis

- Faculty compensation (related to trends in non-academic nursing salaries)
- Small class sizes
- Clinical placements



How should higher costs be shared?

- Students, through tuition and fees (base level, differential, etc.)
- State (formula weights, special appropriation, financial aid)
- Institutions, through internal cross-subsidies from less expensive programs
- Employers/health care systems

# Summer Credits

Current policy creates perverse incentives not in the state's or students' best interests, as described by some institutions in testimony to the Committee.

## Institutional Decisions



Institutional decisions about when to offer a course should be informed by factors such as pedagogical judgment, institutional capacity, state need, and student demand—not funding formula consequences.

## Student Flexibility



Students want flexibility to take courses when it suits their schedule and to complete degrees quickly to enter the workforce.

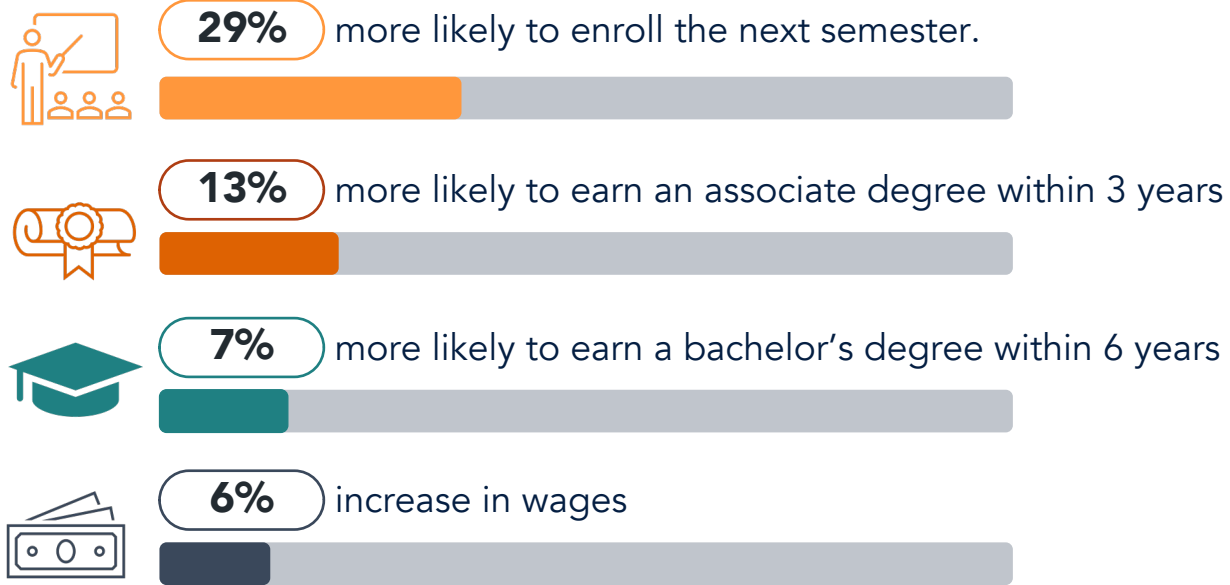
## Inclusive Metrics



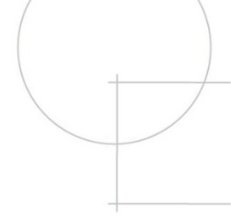
Over three-quarters of OBF models include metrics or weights for priority populations

# Research Points to Positive Impact of Funding Students Year-Round

In 2017, the Federal Pell Grant was expanded to summer terms, enabling low-income students to take courses year-round. Students that took advantage of the Summer Pell Grant were:



# Summer credits make up a sizable share of total credits across NSHE



Institution	% of All Summer WSCH Currently Uncounted	Uncounted Summer WSCH as % of each Institution's Total WSCH
UNLV	91%	9%
UNR	92%	7%
NSU	47%	14%
CSN	97%	10%
GBC	85%	1%
TMCC	98%	5%
WNC	94%	3%
Total	89%	8%

- Despite financial disincentives, institutions still offer a number of summer courses not supported with state funding.
- Others might have more if not for those consequences.

# Counting summer credit hours would lead to minor shifts in current funding

Institution	Change in Share of WSCH if all Summer WSCH were Counted
UNLV	0.3%
UNR	-0.4%
NSU	0.0%
CSN	0.5%
GBC	-0.2%
TMCC	-0.2%
WNC	-0.1%

- Counting all summer credits would reallocate less than 0.5% of any institution's funds.
- If funded as an enhancement, the total cost would be approximately \$48 million.
- **HCM Recommendation:** Include all WSCH in the formula regardless of term to remove the disincentive to offer summer courses. NSHE could request an enhancement but should pursue this policy with or without new funding.



# Considerations for Performance Pool



# Performance Pool

## CONCERNS ELEVATED FROM INTERVIEWS AND INSTITUTIONAL FEEDBACK



### EARN BACK CONCERNS

Institutions have to earn back the money they've already earned through WSCH "base" funding.



### INCENTIVE LIMITATIONS

Performance pool should not be a carve-out, does not create true incentives.



### TARGET REWARDS

Institutions are meeting targets each year; bonuses should be provided to institutions that exceed targets.

## SUGGESTIONS ELEVATED FROM INSTITUTIONAL FEEDBACK AND INTERVIEWS

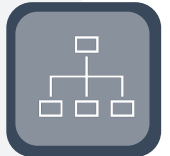
### MODEL CHANGES

Overall, institutions want to eliminate the Performance Pool or make it a new money only model.



### STRUCTURE CHANGES

Other interviewees felt the need for performance or outcomes to be included was important, but the structure of the PP could be improved.



# Performance Pool – HCM Analysis & Options

Our evaluation of the performance pool indicates:








- Metrics are generally fine
- Institution-specific nature creates challenges as do targets/recapture approach.

## OPTIONS TO ADDRESS CONCERNS WITH THE PERFORMANCE POOL

- **Option 1 (HCM's Recommendation):** Performance Pool Should Incorporate or Be Based On Share of Outcomes or Relative Growth
  - Eliminates challenges of target/recapture; Promotes continuous improvement
  - But what we heard indicates that those structures aren't of interest, that direct competition with each other is a red line
- Option 2: Tweaks to existing performance pool - re-baseline targets
- Option 3: No performance pool/only funded with new money (Institutions' preference) - not best practices, hard to achieve the goal of increasing overall funding for NSHE when you take away the part of the formula with the greatest transparency/accountability

# Performance Pool - HCM Assessment

- Nevada's Performance Pool **meets almost all of HCM's criteria** for a quality outcomes-based funding model.
- The **metrics are sound** to advance state goals and equity; **the funding level is robust** to incentivize behavior.
- **But the "earn back" target design does not encourage** continuous improvement.

Base/Recurring or New Funding?	 Base/Recurring
Funding Level	 Moderate (20%)
Reflects Institutional Mission	
Includes Total Credential Completion	
Underrepresented Student Success Prioritized	
Implementing for Two or More Years	
Formula Driven or Target/Recapture	

# Performance Pool Challenges with Incentivizing Improved Outcomes

## CHALLENGE 01

Limits the possible reward for an institution that is low enrollment and high success, by linking to institutions' WSCHs.

## CHALLENGE 02

Institutions feel frustration, not incentive, in having to "earn back" funding already designated for their institution.

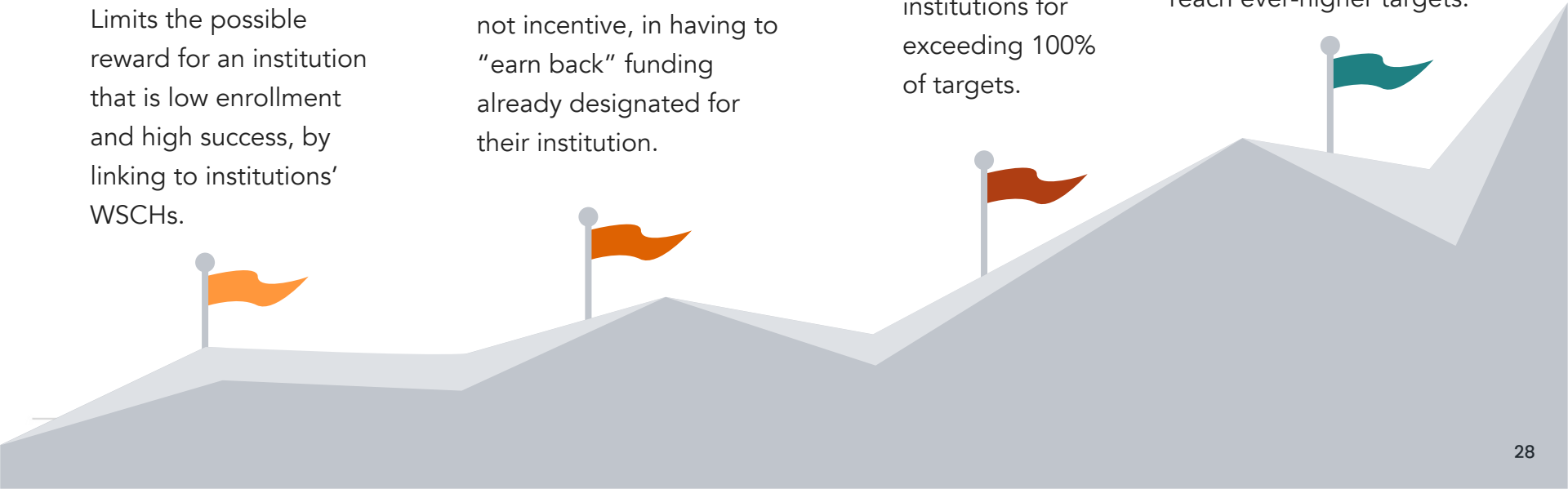
## CHALLENGE 03

Does not reward institutions for exceeding 100% of targets.

## CHALLENGE 04

Targets are not re-baselined. Enrollment declines could drain funding need for improvement.

Missed targets → loss of funding → fewer resources to reach ever-higher targets.



# Performance Pool - Best Practice

- To address these challenges, the best practice would be to use a **Share of Outcomes** or **Relative Growth** approach.
- To implement these approaches and maintain the strengths of the current performance pool, funding for the performance pool should come out of base funding before allocating funds based on WSCH.

Total Formula Appropriation	\$500m
<i>Small Institution Factor</i>	-\$1m
<i>Research O&amp;M</i>	-\$10m
<i>Performance Pool</i>	TBD
<i>Remaining Funds for WSCH Allocation</i>	TBD

# HCM Recommendation

## Relative Growth Model

A Relative Growth model adjusts the share of the total performance pool funding an institution gets based on how much it has changed from its own baseline.

- Accommodates different metrics and weights for different institutions
- Creates **incentives** for continuous improvement every year: the larger the improvement, the greater the share of the total funding.
- Able to be **implemented immediately** without causing any major swings in funding.

## Example of the Relative Growth Distribution of the Performance Pool

Example of the Relative Growth Distribution of the Performance Pool								
	A	B	C	D	E	F	G	H
Institution	FY20 Performance Pool Funding	Share of FY20 Performance Pool $B = A_i / A_{TOT}$	2019-2020 Weighted Points	2020-2021 Weighted Points	Change in Points $E = D/C-1$	Performance Pool Share Growth $F = B*(1+E)$	FY21 Performance Pool Share $G = F_i / F_{TOT}$	FY21 Performance Pool Allocation $H = G * Total$ Pool Funding
CSN	\$20,573,543	21.1%	4,251.2	4,154.9	-2.3%	20.6%	19.5%	\$19,076,874
GBC	\$2,504,094	2.6%	526.1	578.4	9.9%	2.8%	2.7%	\$2,611,857
NSU	\$4,149,387	4.3%	694.0	811.0	16.9%	5.0%	4.7%	\$4,600,718
TMCC	\$7,183,999	7.4%	1,644.5	1,760.9	7.1%	7.9%	7.4%	\$7,298,115
UNLV	\$35,373,534	36.2%	2,642.6	2,937.9	11.2%	40.3%	38.1%	\$37,309,570
UNR	\$24,990,636	25.6%	2,298.1	2,393.5	4.2%	26.7%	25.2%	\$24,693,585
WNC	\$2,830,870	2.9%	776.4	695.4	-10.4%	2.6%	2.5%	\$2,405,593
<b>Total</b>	<b>\$97,606,065</b>	<b>100.0%</b>				<b>105.8%</b>	<b>100.0%</b>	<b>\$97,996,312</b>

# A Relative Growth Model Rewards Continuous Improvement



A Relative Growth Model is a best practice approach - by providing a large enough incentive for continuous improvement.



However, institutional feedback indicated these **two features are non-starters**:

- Creates competition between institutions for the same pot of funds.
- Requires the performance pool funding to be set-aside from the base versus separate/new money only.



# Other Performance Pool Options

Absent a shift to a relative growth approach for performance, making modifications to the existing structure of the performance pool is important. Most importantly would be to re-baseline institution's targets each year.

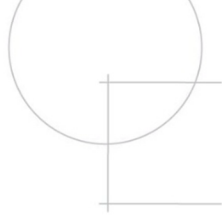
Minor Changes to Existing Structure	Impact	Cautions
1) Rebaseline Institution's Targets Each Year	<ul style="list-style-type: none"><li>- Can prevent a loss of funds due to enrollment declines beyond the institution's control.</li><li>- Ensures institutions are pushed to improve from their current level of performance.</li></ul>	<ul style="list-style-type: none"><li>- Not expected to significantly change institutional behavior or the allocation of funds in the future, as it does not fix the issue of continuous improvement.</li></ul>

# Other Performance Pool Options

*These two options are what was reflected in much of the institutional feedback. HCM does not recommend these two approaches. Inclusion of the other formula adjustments discussed (enrollment component, student attributes, WSCH changes) coupled with modifications to the performance pool that keep performance as part of core institutional funding would align Nevada with best practices and strengthen the formulas alignment to state objectives.*

Major Restructuring	Impact	Cautions
1) Fund the Performance Pool with New Funds Each Year	<ul style="list-style-type: none"><li>- Allocating only new funds to the performance pool is not a best practice; too often it is cut in lean budget years, leaving no funds allocated based on student success.</li></ul>	<ul style="list-style-type: none"><li>- Significantly reducing or eliminating the outcomes-focused portion of the formula will likely make it harder to advocate for increased funding. In many states, outcomes-based funding is enacted as an exchange of accountability for increased funding.</li></ul>
2) Eliminate the Performance Pool		

# Performance Pool Recommendation Recap



**Use a Relative Growth model with funds set aside from the base appropriation.**

- We do not believe it introduces any more competition between institutions than the current formula, in which institutions compete for WSCH.

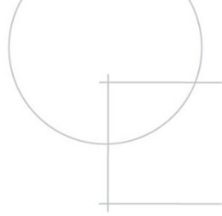
If not Relative Growth model:

- We recommend minor adjustments to the current performance pool by rebaselining targets each year



# Considerations for Institutional Mission Differentiation

# Mission/Sector Differentiation



## Concerns Elevated from Interviews and Institutional Feedback

- Universities and community colleges have different missions and serve different populations, making the case for some form of mission differentiation
- Current funding model does not support community colleges well

## Suggestions Elevated from Interviews/Institution Feedback

- Create (at least) two separate formulas
- Adjust formula to be more inclusive and reflective of costs beyond those captured in WSCH (student attributes, enrollment)

# Mission Differentiation

## HCM Suggestions

There are too few institutions to warrant separate formulas

1

Nevada's current funding model has several "mission differentiation" features including:  
a). O&M for research WSCH, b). Weights for graduate/professional degrees, c). Differentiated metrics by institution

2

Other funding sources also create mission differentiation

3

Adjustments already discussed - headcount and inclusion of student attributes on "front end" would enhance the mission differentiation already reflected and be more inclusive of the full scope of missions represented across public institutions

4



# Recap of Major Takeaways

# Summary of Recommendations

## CURRENT WSCH FUNDING FORMULA IS WORKING “AS DESIGNED” BUT COULD BE IMPROVED

- Gaps in funding are primarily driven by the WSCH design and reflects the mix of programs at different institutions
- Students enrolled in summer should be included to align with best practice
- Three-year averages should be considered to reduce odd incentives of the current year of measure approach
- Focus any cost analysis on specific high priority programs, such as nursing.

## IMPROVEMENTS CAN BE MADE TO REFLECT COSTS ASSOCIATED WITH SERVING PART-TIME STUDENTS AND UNDERSERVED POPULATIONS

- Headcount enrollment factor would account for part-time students
- Adjustments for URM and Pell students
- This will improve the equity of the funding formula and is a more accurate and student-centered depiction of the costs faced by institutions

## PERFORMANCE POOL METRICS ARE STRONG; STRUCTURE AND APPLICATION CAN BE IMPROVED

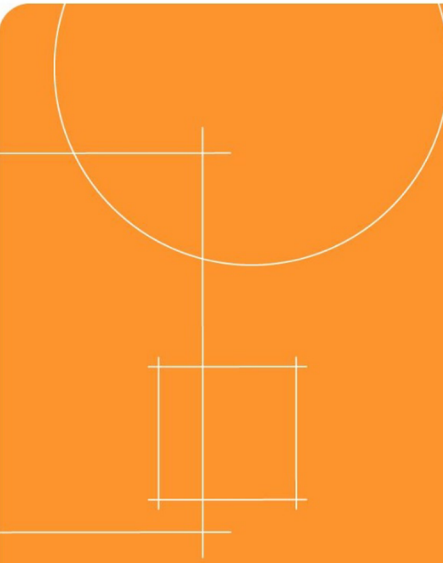
- Recommend a relative change model which is aligned to best practices and supports continuous improvement
- Other recommended option is to keep as carve out of each institution base but reset baseline each year.

1

2

3





# Assessing Nevada's Current Funding Formula



## Framing Questions for Assessing Nevada's Current Funding Formula

Is the current system of allocating funding equitable and fair?

Equity Considerations

1

Is it effective at improving student outcomes?

Improved Student Outcomes

2

### Ways to Define Equitable, Fair and Effective Funding Formulas:

- Is it aligned to state goals and priorities?
- Is it student-centered: does it provide the opportunity and incentives for all students to succeed?
- Does it align with the main drivers of costs at institutions?

# Drivers of Cost: Weighted Student Credit Hour

Nevada's current formula focuses on one primary driver of cost: **enrollment weighted by costs of the program and degree.**

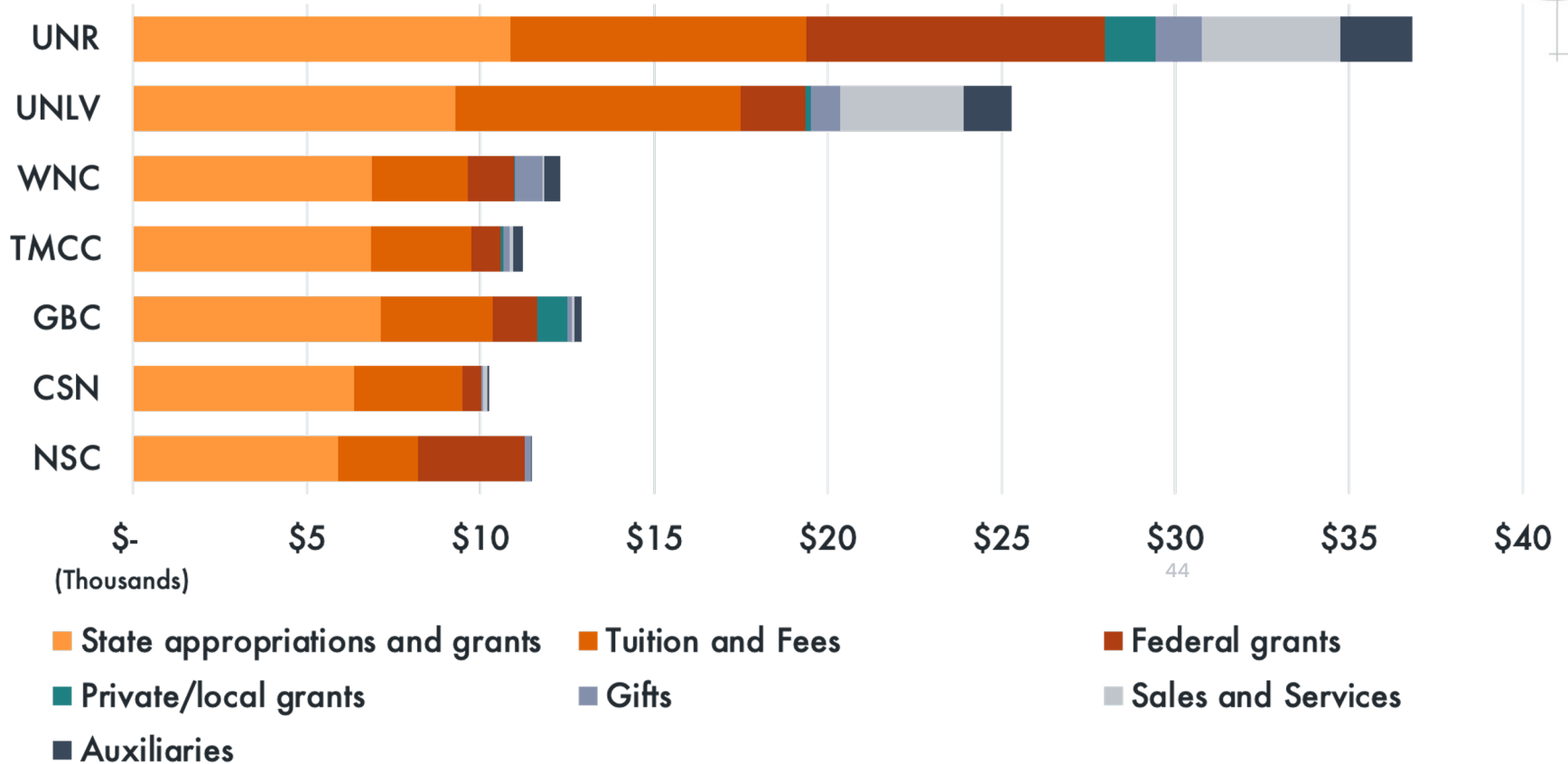
How has that approach led to funds being distributed along other lines?



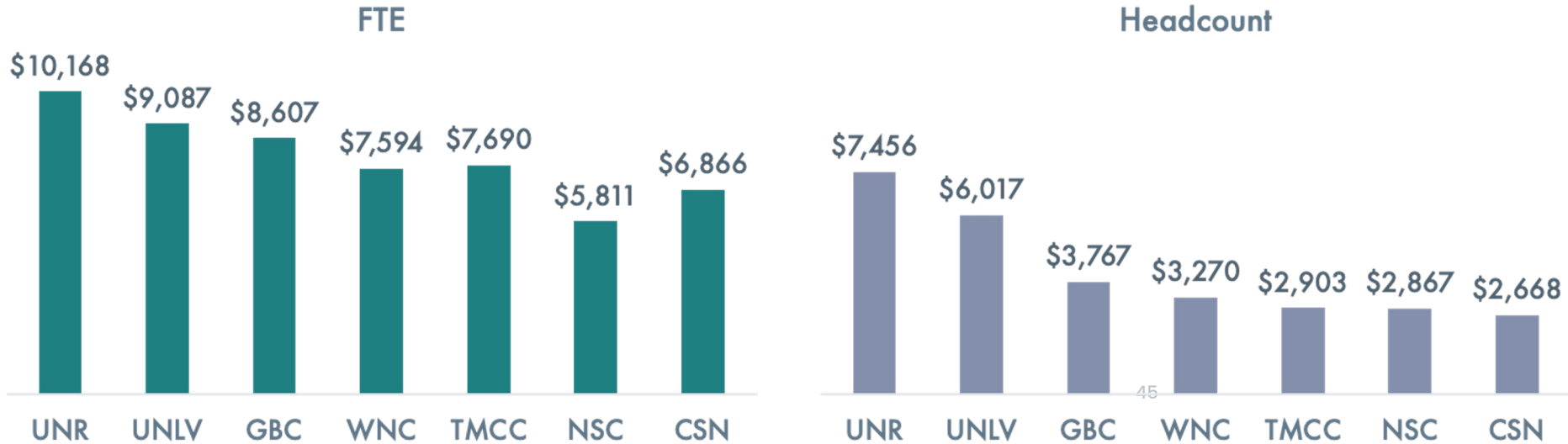
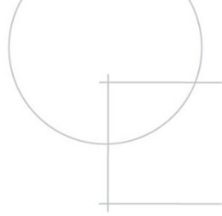
Does it provide equitable and fair funding based on other characteristics?



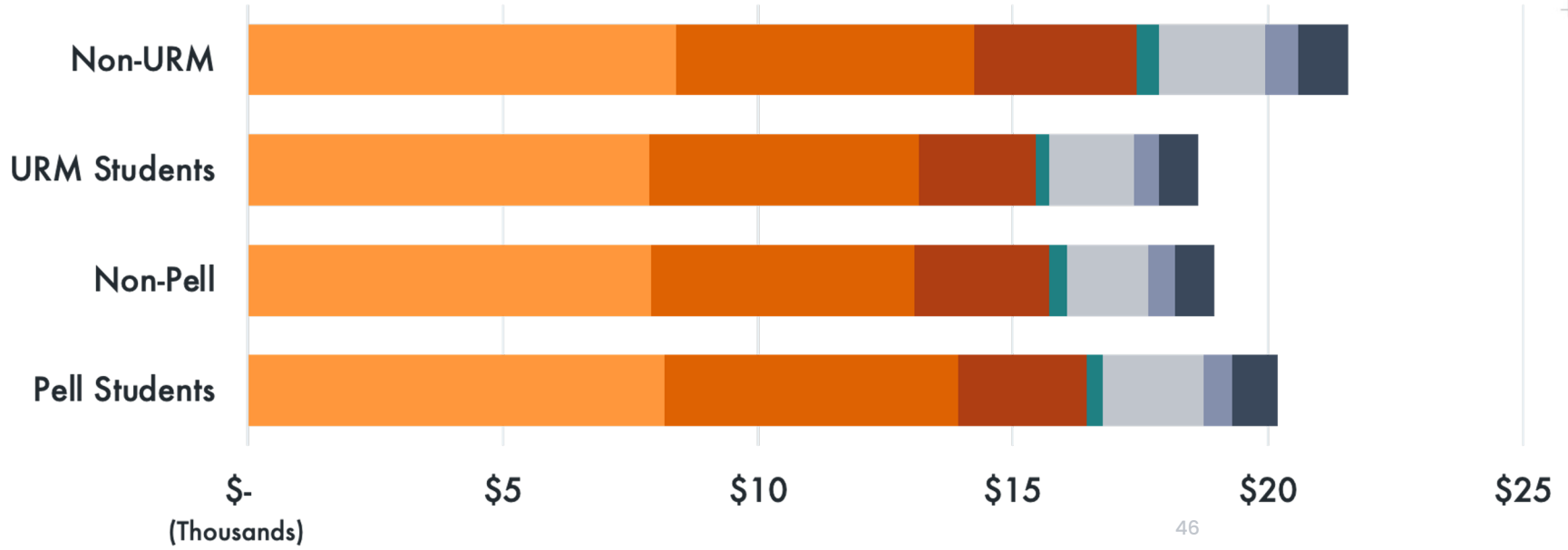
## Institution Budgets per FTE by Revenue Category



# State Funding per Resident FTE vs Headcount (2017-2021)

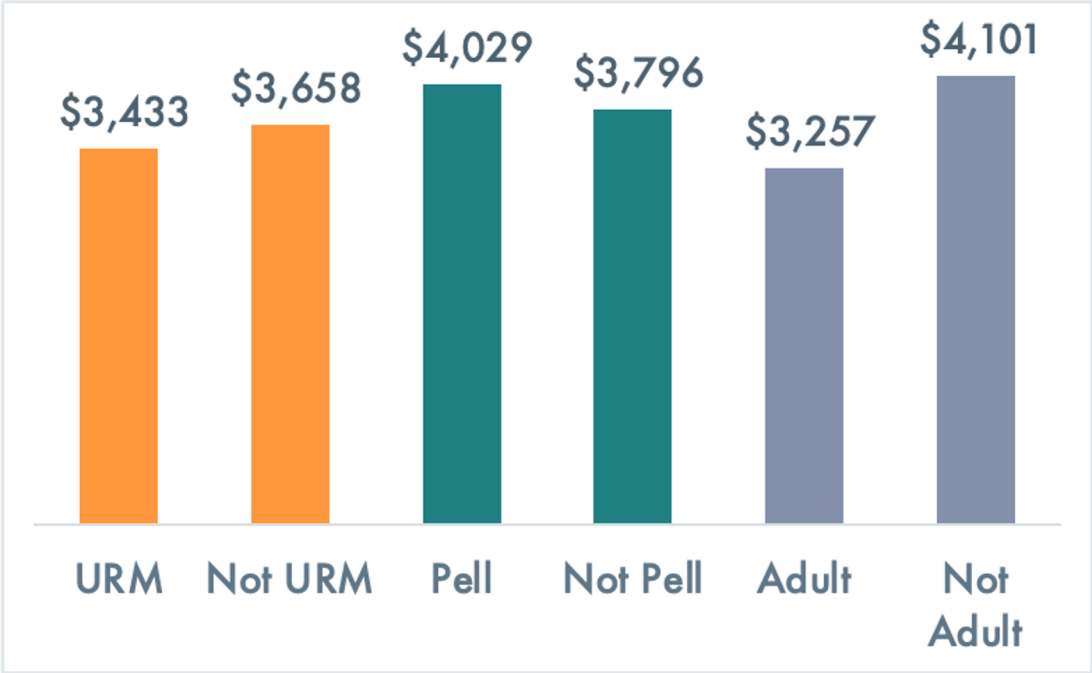
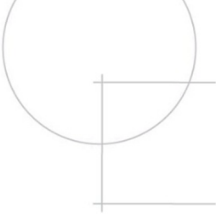


# Institution Revenues per FTE, Weighted by Student Population, FY 2022



- State appropriations and grants
- Tuition and Fees
- Federal grants
- Private/local grants
- Sales and Services
- Gifts
- Auxiliaries

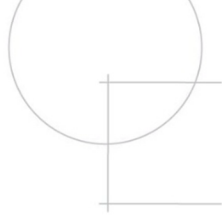
# Average State Funding per FTE Student Weighted by Student Population (includes non-residents)





# Cost Studies and Weighted Credit Hours

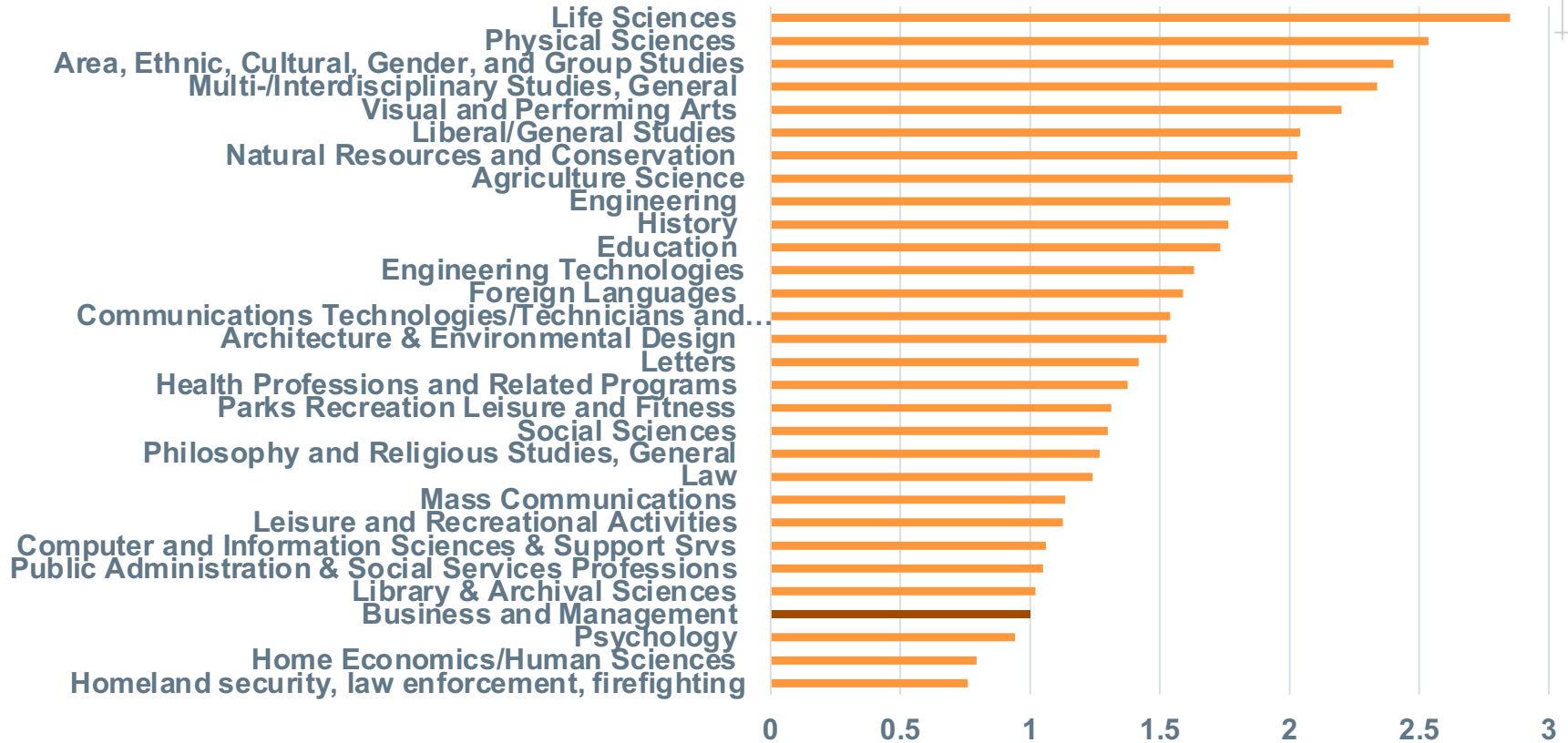


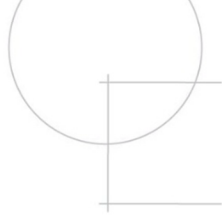


## Cost Studies and Weighted Student Credit Hours

- First cost study in 1910. Before then, no standard way of talking about quantities and costs of instruction
- Quantified amounts of instruction (the credit hour) in relation to faculty time, compensation, and indirect costs
- Became common at state level with mainframe computing in 1970s: NCHEMS, MGT of America
- Typically differentiate level (lower, upper, graduate) and discipline (physics, business)
- These differences can be used as weights

# Example: Florida 2019 Cost Study Relative Weights (Business = 1)

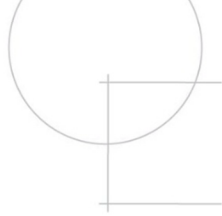




## Current Cost Study Deployment

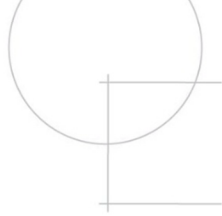
- States with current or recent (last 10 years) cost studies include Florida, Texas, Illinois, Minnesota, New York (SUNY), Ohio.
- Institutions also do or participate in studies; most prominent is the Delaware study
- Uses vary from information only to enrollment funding, to tuition setting.
- States have been dropping or de-emphasizing cost studies in favor of other approaches.

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## Practical Limitations of Cost Studies

- Not as well suited to large, modern universities as to simpler institutions
- Graduate and undergraduate education are more often interdependent
- Discipline boundaries are changing rapidly, interdisciplinary work more common
- Sponsored research and public service are hard to sort from instructional costs

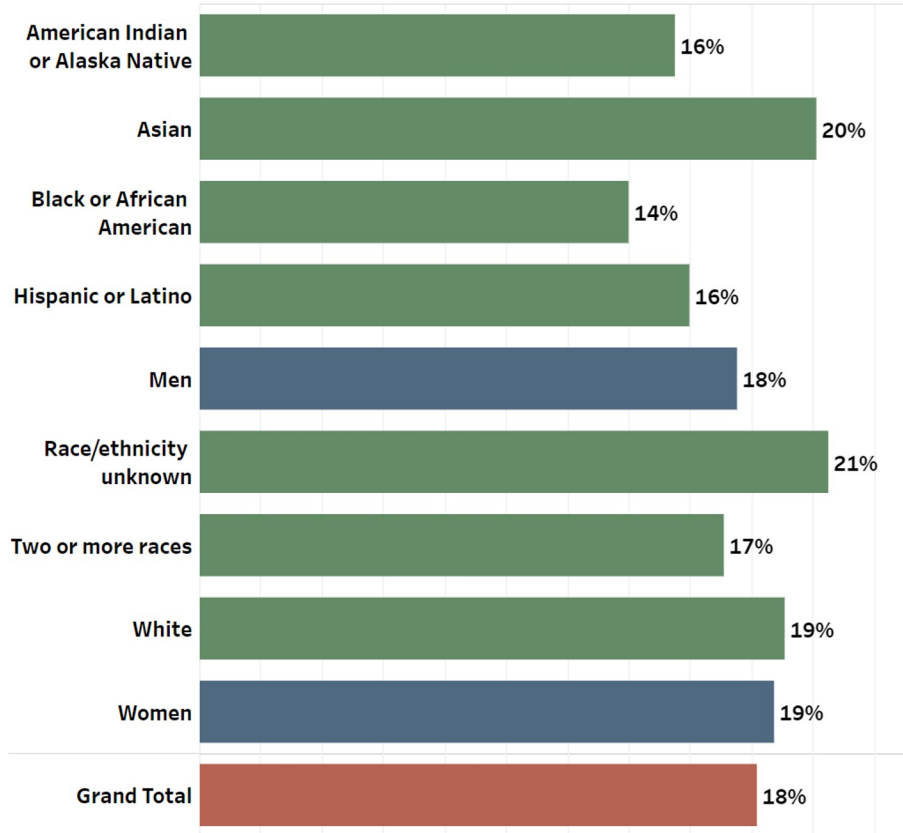


## Conceptual Limitations of Cost Studies

- Historical costs are not necessarily adequate or appropriate costs
- Historical analysis cannot substitute for strategy:
  - Which programs are most important to the state? To students? To employers?
  - Who should pay?
- Can reproduce historical funding inequities if racial minorities, women, low-income students are not equally represented in higher-weighted programs<sup>53</sup>

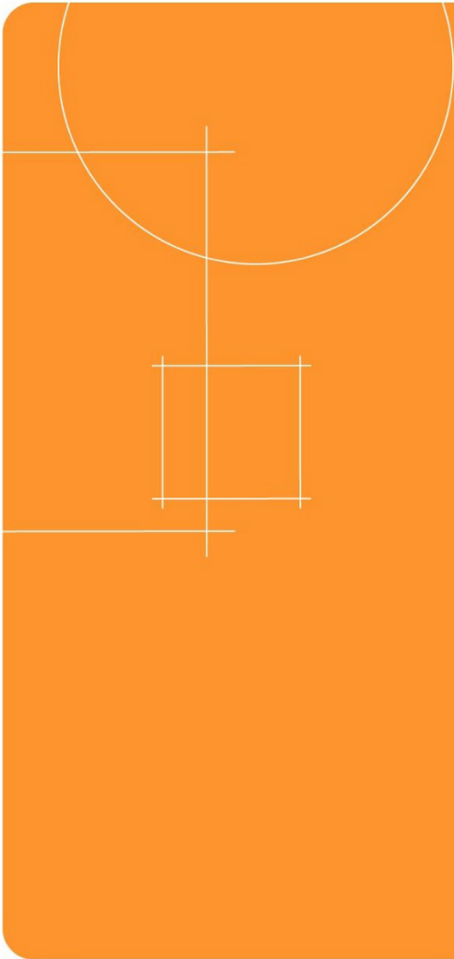
# Student Populations Not Equally Represented in High-Cost Programs

## High-Cost Bachelor's Degrees 2016-21



## Recommended Alternatives to Historical Discipline-Based Cost Studies/Weights

- Unweighted hours or student headcounts
- Weights based on student characteristics
- Weights based on priority disciplines
- Targeted analysis related to a specific goal or action: “What would it cost to increase nursing graduates? Open a new institution? Enroll more low-income students?”



# Principles of a Strong Postsecondary Finance System



# Principles of a Strong Postsecondary Finance System

*These first 2 principles are more broadly about articulating a vision for higher education that can guide the priorities and state role for funding higher education.*

Principle	State Approaches	Current Nevada Funding Model
A funding system that is <b>linked to clearly established goals and objectives</b> for higher education.	States often use their attainment goal and strategic priorities as a critical anchor for assessing, developing and implementing funding models. Because these needs can shift over time, states also build in consistent reviews to ensure and strengthen alignment.	Nevada's previous attainment goal expired in 2020; new higher education-specific goal and strategic plan have not been formalized.
A funding system that has defined <b>adequate level of resources required to deliver quality education.</b>	Recent efforts to determine sufficient/adequate spending levels to achieve desired outcomes and to articulate the state's role in funding, with consideration of other resources and their underlying incentives.	Nevada does not define a goal or specific commitment of state funding. Model is used to allocate resources, not define or inform a specific level of funding.

# State Examples: Texas and Illinois

## *Building a Talent Strong Texas* - the state's strategic plan aligned to 60X30 attainment goal

### Commission on Community College Funding:

- Aligns funding with state goals
- Ensures a minimum level of funding with consideration of access to other resources and student needs
- Prioritizes every state dollar for community colleges to be tied to the goals outlined in *Building a Talent Strong Texas*, the state's new strategic plan for higher education



## A Thriving Illinois Strategic Plan establishes clear goals and priorities for state higher education

### Commission on Equitable Public University Funding:

- Establishes a clear target for equitable and adequate funding and level of state funding required
- Reflects unique needs of each institution based on its student needs, mission and mix of programs
- Grounded in evidence-based practices
- Provides every institution with a funding increase when new dollars are invested



# Principles of a Strong Postsecondary Finance System

*The following principles are centered on components of a funding formula that can be used to inform the level and/or allocation of state funding for higher education. While best if grounded in the first 2 principles, they can be implemented separately.*

Principle	State Approaches	Current Nevada Funding Model
A funding system that includes a minimum level of funding <b>support fixed costs</b> .	Guaranteed minimum for O+M, sometimes adjusted for size of school.	Nevada includes a small school O+M adjustment based on student credit hours to ensure a minimum level of funding.  Nevada also includes a research O+M adjustment for the R1s.
A funding system that is <b>responsive to changes in the system on both enrollments and outcomes</b> .	Funding based on combination of enrollments and outcomes. Shift from FTE-only calculations to headcount.	Weighted student credit hours are tied to enrollment.  Construct of OBF portion (performance pool) not responsive to changes.

# Principles of a Strong Postsecondary Finance System

(continued)

Principle	State Approaches	Current Nevada Funding Model
A funding system that <b>aligns with state's current needs for a more educated and trained workforce.</b>	Several states with outcomes-based funding models have priority for specific in-demand degrees or certificates. Data can be a limiting factor for more direct workforce metrics.	Nevada includes economic development degrees as a metric within the performance pool portion of the funding model.
A funding system that <b>accounts for differing student needs.</b>	Typically, a feature in states that have outcomes/student success metrics incorporated into funding models. States increasingly integrating into adequacy and enrollment components.	Nevada's WSCH's do not include adjustments for student need.  Completions by URM and Pell students are given additional weighting in the performance pool portion.

# Combinations Used in States



Several states use a combination of approaches that balance various considerations of stability, access and outcomes.

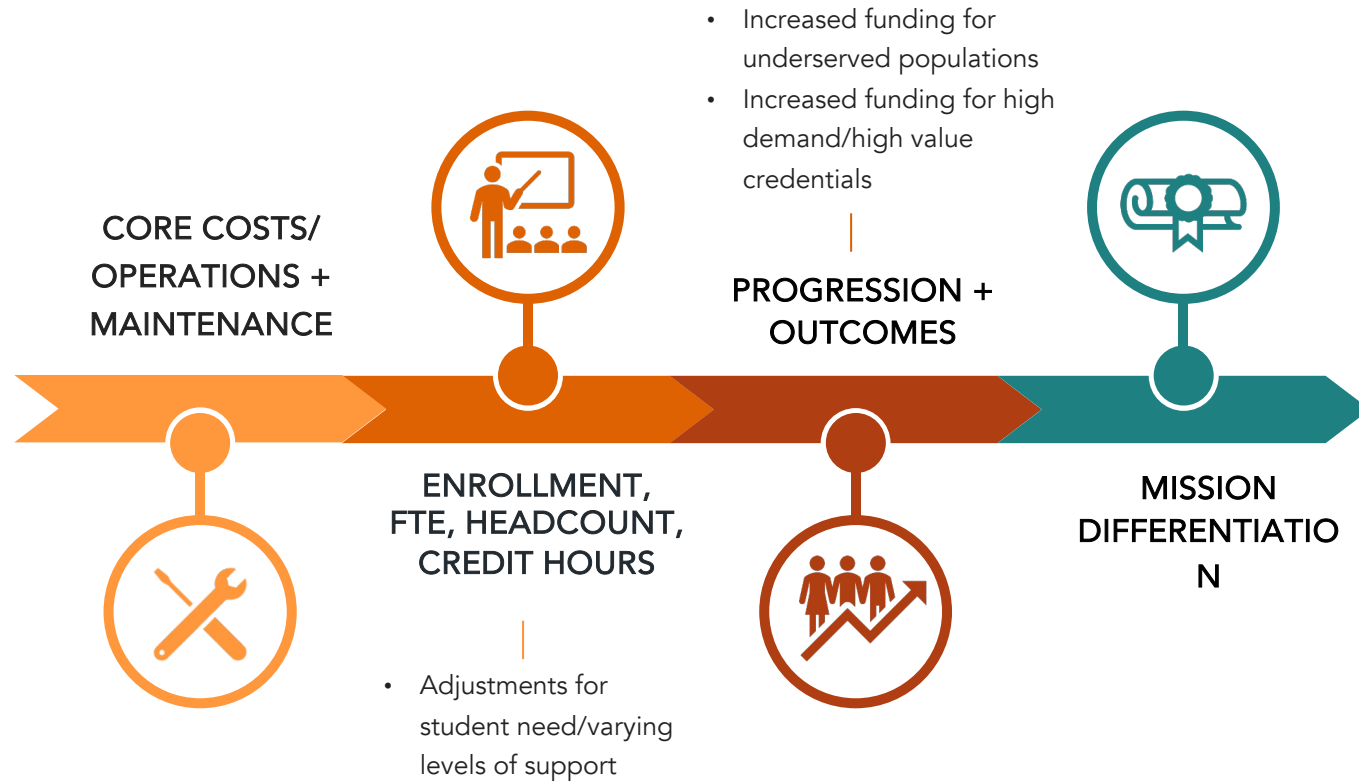


Increasingly these approaches are adjusted to reflect student needs, including adjustments to minimum “base” funding, weighted enrollment funding and outcomes adjusted for student characteristics.

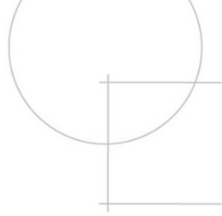


Several states supplement other mission-specific aspects to institutions outside of the funding formula, such as medical schools and research.

# A Balanced Approach: A Best Practice and Growing Trend



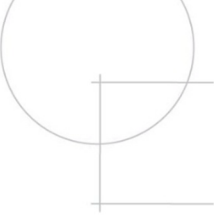
# Assessing Nevada's Funding Formula: Core Costs



## Partially Included. "Pre-formula adjustments"

- Small Institution Factor Set-Aside (GSN)
  - Adjustment to account for efficiencies of scale related to fixed costs
  - Provides \$30 per WSCH for each WSCH below 100,000; ensuring a minimum funding level of \$3 million per college.
- Research O&M Set-Aside:
  - Supports cost for research space at UNLV + UNR
  - Funding per research square foot generates \$180-\$310 per FTE
- ***Formula does not include utilities and physical plant:*** Not necessarily different from other cost increases. Including would not ensure more funding to all colleges for these costs, but would allocate more to colleges that spend more on these costs.

# Assessing Nevada's Funding Formula: Enrollment



**Included.** Student credit hour completions can be considered an enrollment metric.

- Includes only Nevada resident students
  - *Is this a disincentive to enrolling out-of-state students?*
    - State revenue is not the only source of funding or only source of incentives
    - Out-of-state tuition is higher and provides its own incentive



# Assessing Nevada's Current Funding Formula: Weighted Enrollment

## Included:



Weights based on cost: adjustments for discipline + academic level.

- Supports institutions with higher cost and higher level discipline and program mix.
- May or may not be aligned to state economic and workforce needs.

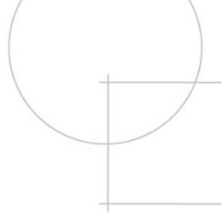
## Not Included:



Weights that reflect differences in level of student background and need.

- Colleges serving higher numbers and proportions of first generation, low-income or academically underprepared students have higher costs associated with the supports needed to retain and graduate these students.

# Assessing Nevada's Current Funding Formula: Outcomes + Weighted Enrollment



**Outcomes - Included:** Outcome metrics include recognition of:

- Gateway Courses (2 years)
- 2-year transfer (4 years)
- Degrees Completed
- Economic Development Degrees Completed

*(OBF discussed in more detail later, including mechanics/application of performance pool)*



**Weighted Outcomes - Included:**

- 40% premium for completions of Pell and URM

# Assessing Nevada's Current Funding Formula: Mission Differentiation



- **Funding model includes mission-aligned adjustments:**
- Research O&M Set-Aside (UNLV, UNR)
  - Funding per research square foot generates \$180-\$310 per FTE.
- Mission-related student credit hour weightings for Master's and Doctoral courses.
  - Weights are 2x-3x those used for upper division courses.
- Performance Pool:
  - Specific metrics: Sponsored Research (UNLV, UNR); Gateway Course Completers (NSU, CC's)
  - Varied Weights across metrics to align

# Comparing State Funding Formula Components Table

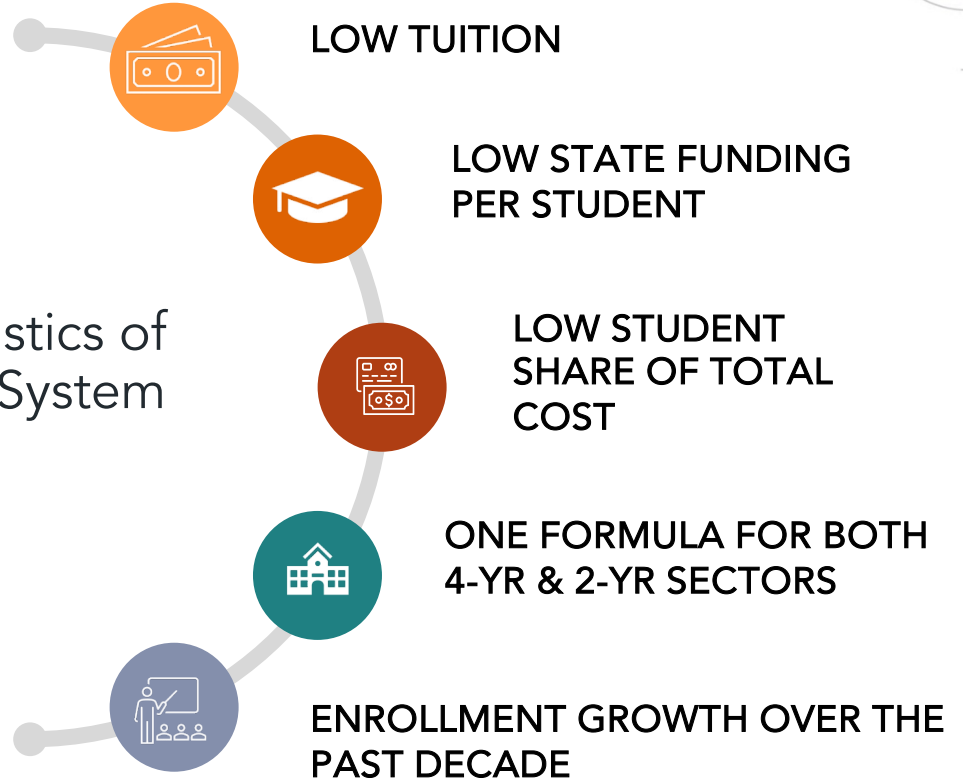


State	O+M	Enrollment	Weighted Enrollment - Costs	Weighted Enrollment - Students	Outcomes	Weighted Outcomes	Mission
NV	Small School and Research	SCH	Discipline + Academic	No	Various	URM + Pell	Yes
LA	Sq. foot	SCH	Discipline + Level	URM Concentration adjustment	Completion Research Workforce	Adult Low-Income URM	Yes
MN	Facilities	FTE + Headcount	No	URM + Pell	Persistence Completion	Students of Color	Yes
NM	No	SCH	No	No	Awards STEM H Persistence	At-Risk Awards Cost Tiers	Yes
CO	No	FTE + Headcount	No	First-gen; URM; Pell	Grad Rate Credential Completion	No	No

# Selecting Comparison States



Characteristics of Nevada's System



# Selecting Comparison States

State	Geography	Low Tuition	Low State Approps per FTE	Low Student Share	Low Enrollment Decline	One Funding Formula for Both Sectors
OK			X			X
OR	X		X			
LA		X	X	X	X	X
MT	X	X	X			
NM	X	X		X		X
CO	X		X		X	X
AR		X				X

# Outcomes-Based Funding Topics

1

## HCM OBF Typology

- Principles of a quality OBF model
- Assessing Nevada and comparison states

2

## Nevada's Metrics

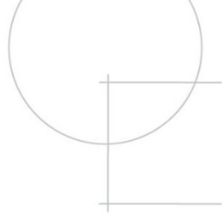
- Do they align with state priorities and lead to an equitable and fair allocation?

3

## Incentivized Performance?

- Percent of Funding Going Through OBF
- Base/Recurring
- Formula Driven or Target/Recapture

# Outcomes-Based Funding: HCM OBF Typology



NEVADA		
Sectors Implementing SSF in FY 2020	Four-Year and Two-Year	
Linked to Attainment/Completion Goal	Yes	
Base/Recurring or New Funding	Base/Recurring	
SECTOR-LEVEL OBF ANALYSIS		
	Four-Year	Two-Year
Formula Type	IV	IV
Funding Level	High	High
Reflects Institutional Mission	Yes	Yes
Includes Total Degree/Credential Completion	Yes	Yes
Underrepresented Student Success Prioritized	Yes	Yes
Implementing for Two or More Years	Yes	Yes
Formula-Driven or Target/ Recapture	Formula	Formula

The Typology considered the WSCH as part of Nevada’s OBF.

The Performance Pool alone generates a different assessment.

The Performance Pool is a “Target/Recapture” model, not “Formula.”





# HCM OBF Typology

	Linked to Attainment Goal	Base/ Recurring or New Funding	Formula Type	Funding Level
NV	Yes	Base/Recurring	Type III	Moderate (20%)
OK	Yes	New Funding	Type I	Low (2%)
OR - 2 yr	Yes	Base/Recurring	Type IV	Moderate (5%)
OR - 4 yr	Yes	Base/Recurring	Type III	High (50%)
LA	Yes	Base/Recurring	Type IV	High (32%)
MT	Yes	Base/Recurring	Type III	Moderate (8%)
NM	Yes	Base/Recurring	Type III	Moderate (5%)
CO	Yes	Base/Recurring	Type II	High (92%)
AR	Yes	Base/Recurring	Type IV	High (100%)

# HCM OBF Typology

	Reflects Institutional Mission	Includes Total Degree/ Credential Completion	Underrepresented Student Success Prioritized	Implementing for Two or More Years	Institutional Allocation Method
NV	Yes	Yes	Yes	Yes	Institution-Specific Pool
OK	No	Yes	Yes	Yes	Relative Growth
OR - 2 yr	Yes	Yes	Yes	Yes	Share of Outcomes
OR - 4 yr	Yes	Yes	Yes	No	Share of Outcomes
LA	Yes	Yes	Yes	Yes	Share of Outcomes
MT	Yes	Yes	Yes	Yes	Institution-Specific Pool
NM	Yes	Yes	Yes	Yes	Share of Outcomes
CO	No	Yes	Yes	Yes	Relative Growth
AR	Yes	Yes	Yes	Yes	Relative Growth

# OBF: Advancing State Priorities

## OBF metrics should advance state priorities

- Interviews indicate no defined set of priorities specific to higher ed, but some common themes:
  - Increased and more equitable attainment
  - Prepared workforce to attract new industries and meet current demand
  - Affordable pathways (e.g. transfer)

### Nevada Aligned Metrics

Degrees Completed	40-50%
Economic Development Degrees	20%
Transfer	5-10%

# OBF: Equitable and Fair Allocation

OBF metrics should promote the success of traditionally underrepresented student populations to:

- Counteract incentives to restrict access
- Recognize these populations may require more resources
- Acknowledge their role in reaching state attainment and workforce goals

## Nevada Aligned Metrics



40% Weight for  
degrees earned  
by Pell and URM  
students

# Outcomes-Based Funding: Metrics Used

TABLE 5. SSF METRICS BY STATE: FOUR-YEAR SECTOR

States	Course Completion	Progression	Total Degrees/Certificates	Transfers	Efficiency	Research / Public Service	Workforce	Cost / Affordability	Priority Fields	Priority Population Success	Other
AR		X	X	X	X	X		X	X	X	
CO	X	X	X		X				X	X	
FL			Partial		X		X	X	X	Partial	X
HI			X	X	X				Partial	X	
IN		X	X		X				X	X	
KS	Partial		Partial		X	Partial			Partial	Partial	X
KY	X	X	X		X				X	X	
LA	X	X	X	X		X	X		X	X	
MI			X		X	X		X	X		X
MT			X		X	Partial				X	Partial
ND	X										
NJ			X							X	X
NM	X	Partial	X			Partial			X	X	
NV	X	Partial	X	X	X	Partial			X	X	
OH	X		X			X			X	X	
OK		X	X		X						X
OR	X		X						X	X	
RI			Partial		X	Partial			X	X	X
TN		X	X		X	X				X	X
UT			X		X	Partial			X	X	
VA-A									X		
VA-B									X		
VT			X								
WI		X	X	X	X	X		X	X	X	X

# OBF: Progression Metrics

## Nevada

- 2yrs: Gateway Completion Courses (10%)
- 4yrs: Transfer from 2yr (5%)

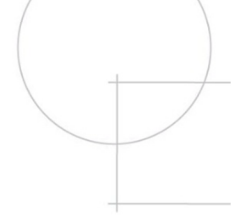
## Comparison State Examples

- Students earning 15/30 credits
- Retention rate
- Gateway course success

Comprise 10%-30% of total OBF

## Nationally

- Half of all 4yr OBF models
- Three-quarters of 2yr OBF models



# OBF: Completion Metrics

## Nevada

- Degrees Awarded (40%)
- Transfer to 4yr (10%)
- Degrees per 100 FTE (20%)

## Comparison State Examples

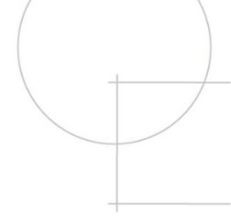
- Degrees awarded
- Graduation rate
- Transfer to 4yr
- On-time completion

Comprise 35%-65% of total OBF

## Nationally

- Used nearly universally





# OBF: Post-Completion Metrics

## Nevada

- Economic Development Degrees Awarded (20%)

## Comparison State Examples

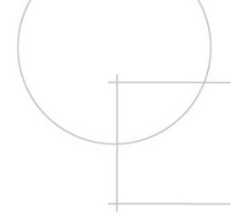
- Weights for degrees in high-demand/high-wage fields
- STEM+Health degrees

Weights range from 25-50%

Metrics comprise ~15%

## Nationally

- Workforce outcomes (e.g., earnings & job placement) rarely used in 4yr sector, about a quarter of 2yr sector models



# OBF: Priority Population Weights or Metrics

## Nevada

- Completion - 40% weights for Pell and URM students

## Comparison State Examples

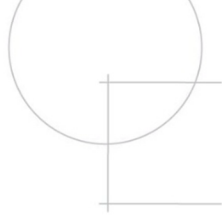
- Weights and metrics for awards, retention
- Populations include Pell, URM, adults, academically underprepared, veterans

Weights range from 5-50%  
Metrics comprise ~15%

## Nationally

- Over three-quarters of OBF models include metrics or weights for priority populations


# Incentivizing Improved Outcomes Through OBF



To effectively incentivize outcomes, OBF funding should be:

- Recurring, not just used to allocate new money.
- Large enough to influence behavior (>5%).
- Reward continuous improvement, not cap rewards at a certain goal/threshold.

# Incentivizing Improved Outcomes Through OBF

Principle	Nevada	Nationally
Recurring		4-years: 22 / 27 states 2-years: 26 / 31 states
Large Enough		4-years: 18 / 27 states 2-years: 22 / 31 states
Continuous Improvement		4-years: 20 / 27 states 2-years: 27 / 31 states

# Incentivizing Improved Outcomes Through OBF

## CHALLENGE 01

Limits the possible reward for an institution that is low enrollment and high success, by linking to institutions' WSCHs.

## CHALLENGE 02

Institutions feel frustration, not incentive, in having to "earn back" funding already designated for their institution.

## CHALLENGE 03

Does not reward institutions for exceeding 100% of targets.

## CHALLENGE 04

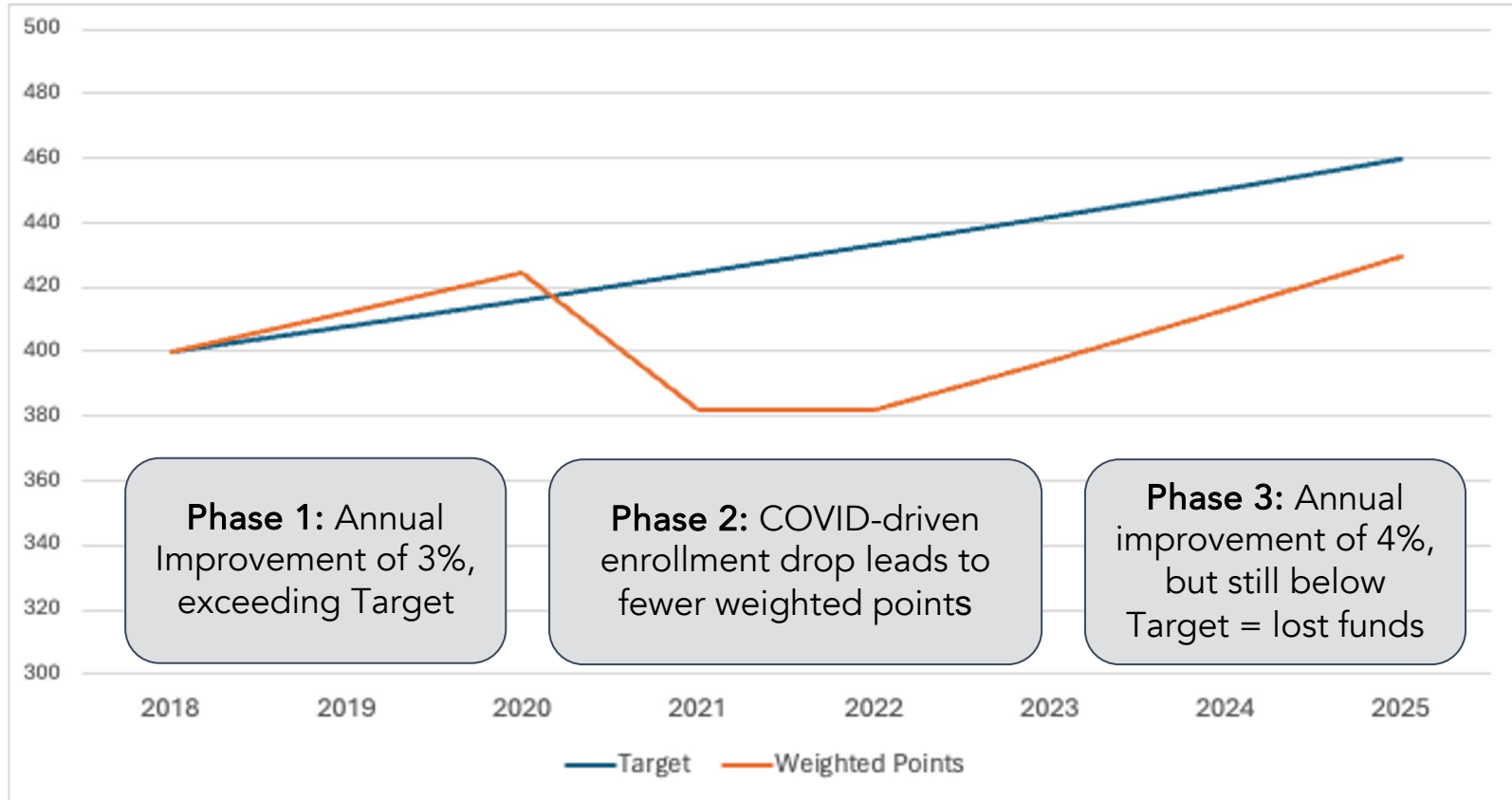
Targets are not re-baselined. Enrollment declines could drain funding need for improvement.

Missed targets → loss of funding → fewer resources to reach ever-higher targets.



Challenges with Nevada's Performance Pool

# Impact of Consistent Growth of Targets



## Alternative Approaches to OBF Implementation

1

**Share of outcomes:** Institutions' performance pool funding is based on their share of the total outcomes generated in the state. Outcomes can be scaled and weighted as desired.

**Example:** Institution A produces 15% of all weighted points, so it receives 15% of the OBF funds.

Pro: Rewards improvement beyond 100%

Con: Creates direct competition between institutions

## Alternative Approaches to OBF Implementation

**2** **Relative growth:** Institutions' performance pool funding is based on how much they improve over their own baseline relative to others' improvement.

**Example:** Institution A improves its weighted points by 10%; others improve by 0-5%. Institution A receives a larger share of the performance pool than it did the prior year.

Pro: Rewards improvement beyond 100%

Con: Creates indirect competition between institutions



# Alternative Approaches to OBF Implementation

Both Share of Outcomes and Relative Growth options would involve setting aside the performance pool funds before allocating based on WSCH.

---

FY20 Leg. Approved Formula Appropriation	\$ 498,707,410
Less: Small Institution Factor	(1,121,760)
Less: Research O&M	(9,298,859)
Less: Performance Pool (20%)	(99,331,358)
<b>Adjusted General Fund Appropriation</b>	<b>\$ 388,955,433</b>
<i>(allocated by WSCH)</i>	

# Alternative Approaches to OBF Implementation

## **3** Re-baseline individual targets each year.

Sets targets at reasonable but ambitious levels of improvement based on current conditions; prevents a situation where declines in enrollment make it nearly impossible for an institution to reach its outcome targets.

## **4** Establish separate funding source for exceeding targets.

Set aside a portion of funds, before allocating based on WSCH, that can be split among institutions that exceed 100% of their target.

# Alternative Approaches to OBF Implementation

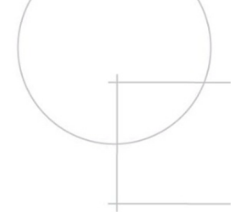
To ensure the the additional incentive funding recurs, it should come out of the base before allocating based on WSCH.

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FY20 Leg. Approved Formula Appropriation	\$ 498,707,410
Less: Small Institution Factor	(1,121,760)
Less: Research O&M	(9,298,859)
Less: Performance Pool Additional Incentive	(10,000,000)
<b>Adjusted General Fund Appropriation</b>	<b>\$ 478,286,791</b>

*(allocated by WSCH, 20% of which is for performance pools)*

## Other States That Use Institution-Specific Pools



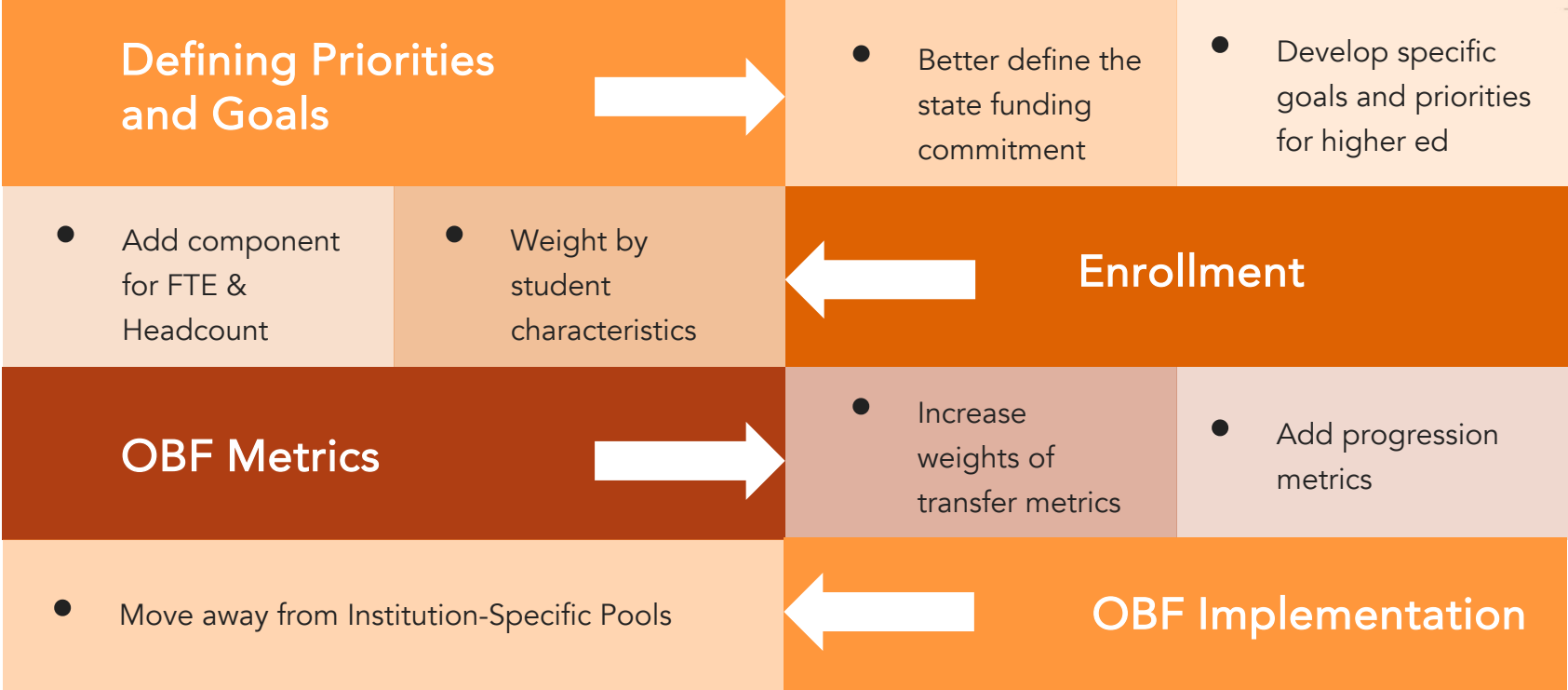
State	Details
North Carolina UNC System	Individualized “stretch goals” for all 5 OBF metrics. Meeting the goals adds up to 3% in weights to the SCH used in the enrollment-based formula. No reward for exceeding stretch goals.
Montana	Institutions’ pools defined by their share of FTE enrollment. Growth target set at 1% above prior year outcomes. No reward for exceeding target.

# Funding for Innovation

- Innovation can include research, industry partnerships, new programs, new student supports strategies, etc.
- Institutions can choose to use state funding to support these activities; the limitation may be the total funding available.
- State funding formulas do not incorporate innovation. States fund it through other mechanisms like line-item appropriations or grant programs in priority areas.
- To further pursue this area, the state could develop a clear definition of innovation and goal for the funding.



# Recommended Areas for Consideration





# Thank You!

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