HCM Strategists

Nevada System of Higher Education

Ad Hoc Committee on Higher Education Funding

May 30, 2024

REVISED

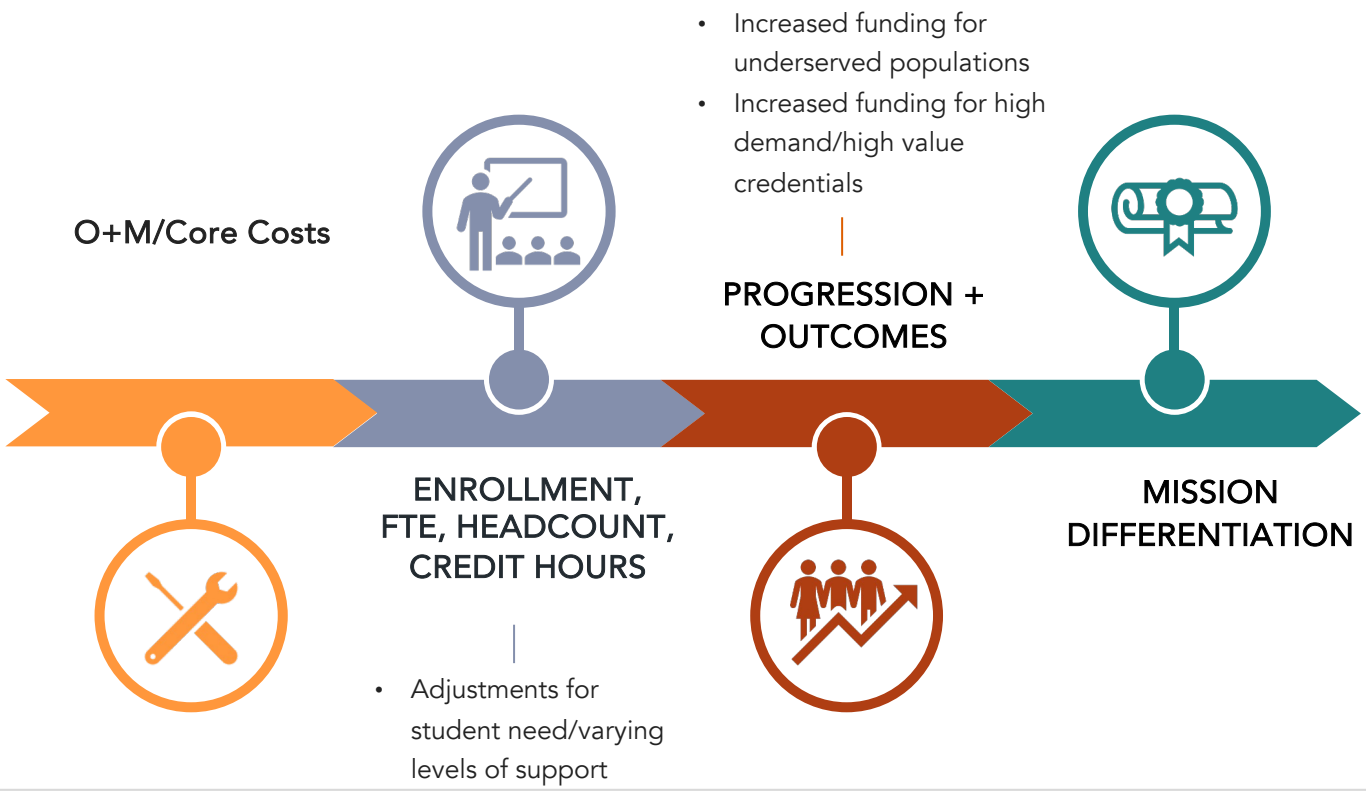
HCM STRATEGISTS

Agenda

1. Context and Conceptual Framework
2. O&M/Core Costs - Small Institution Factor
3. Student-Based Funding (Student Attributes)
4. WSCHs - Summer Credit Hours
5. WSCHs - Count Years
6. Outcomes-Based Funding & the Performance Pool
7. Complete Framework & Implementation

Context and Conceptual Framework

A Balanced Approach: A Best Practice and Growing Trend



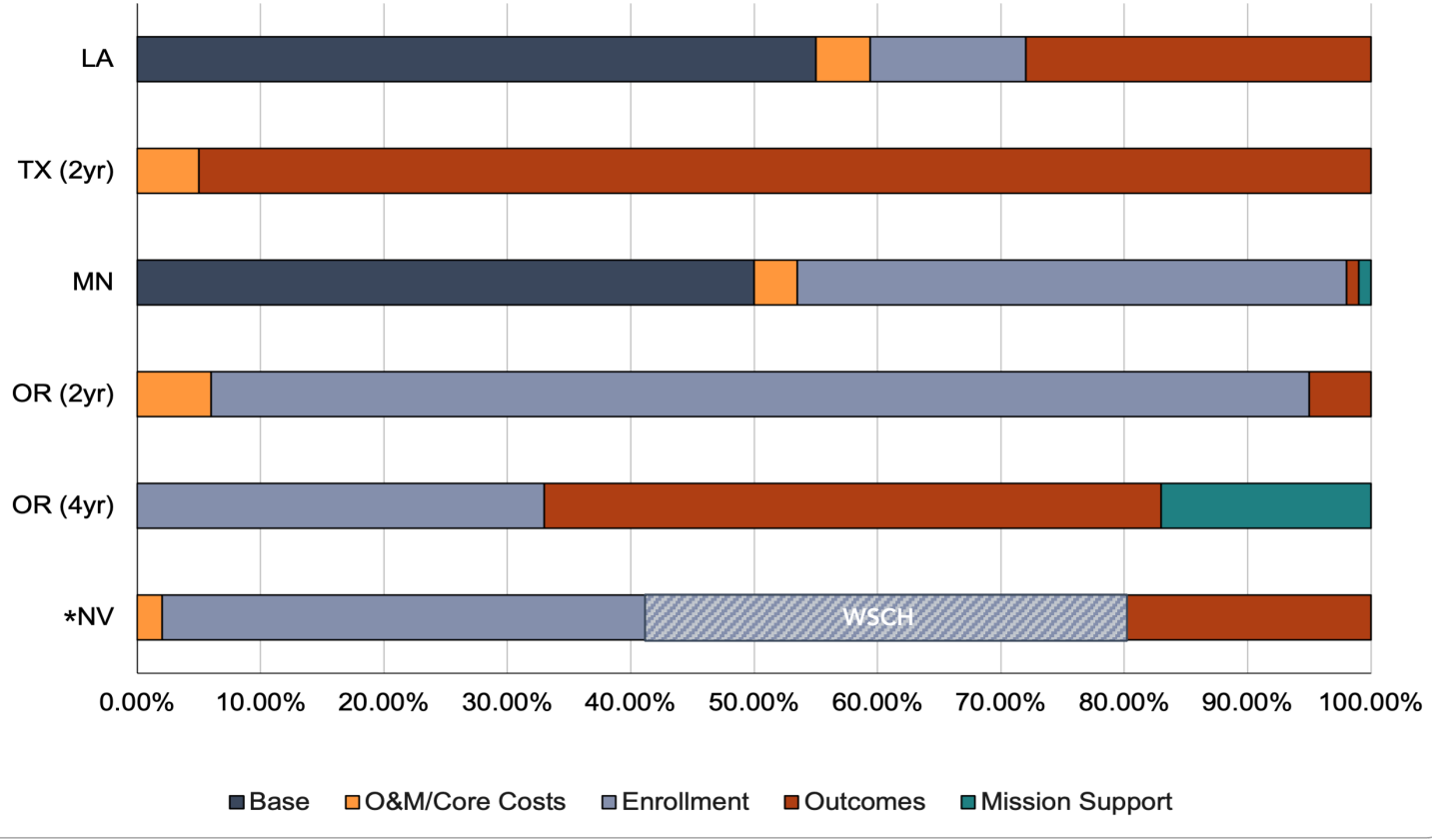
Examples of State Combinations

State	Base +	O&M/ Core Costs	Enrollment	Weighted Enrollment - Cost	Weighted Enrollment - Student	OBF	OBF Equity
LA *Both sectors*	✓	✓ (Sq.ft for instruction & research)	✓ (Credit hours)	✓ (Credit hour + discipline weights)	✓ (Institutions with higher than average URM enrollment)	✓ (Progression, completion and workforce)	✓ (Adult, Pell, URM)
TX *2-year*		✓ (Basic allotment & small school factor)	✓ (FTE & contact hour)	✓ (Contact hours weighted by discipline)	✓ (Pell, academic unprepared, adult)	✓ (Dual credit, transfer, credentials, high-demand premium)	✓ (Pell, academic unprepared, adult)

Examples of State Allocation Formula Combinations

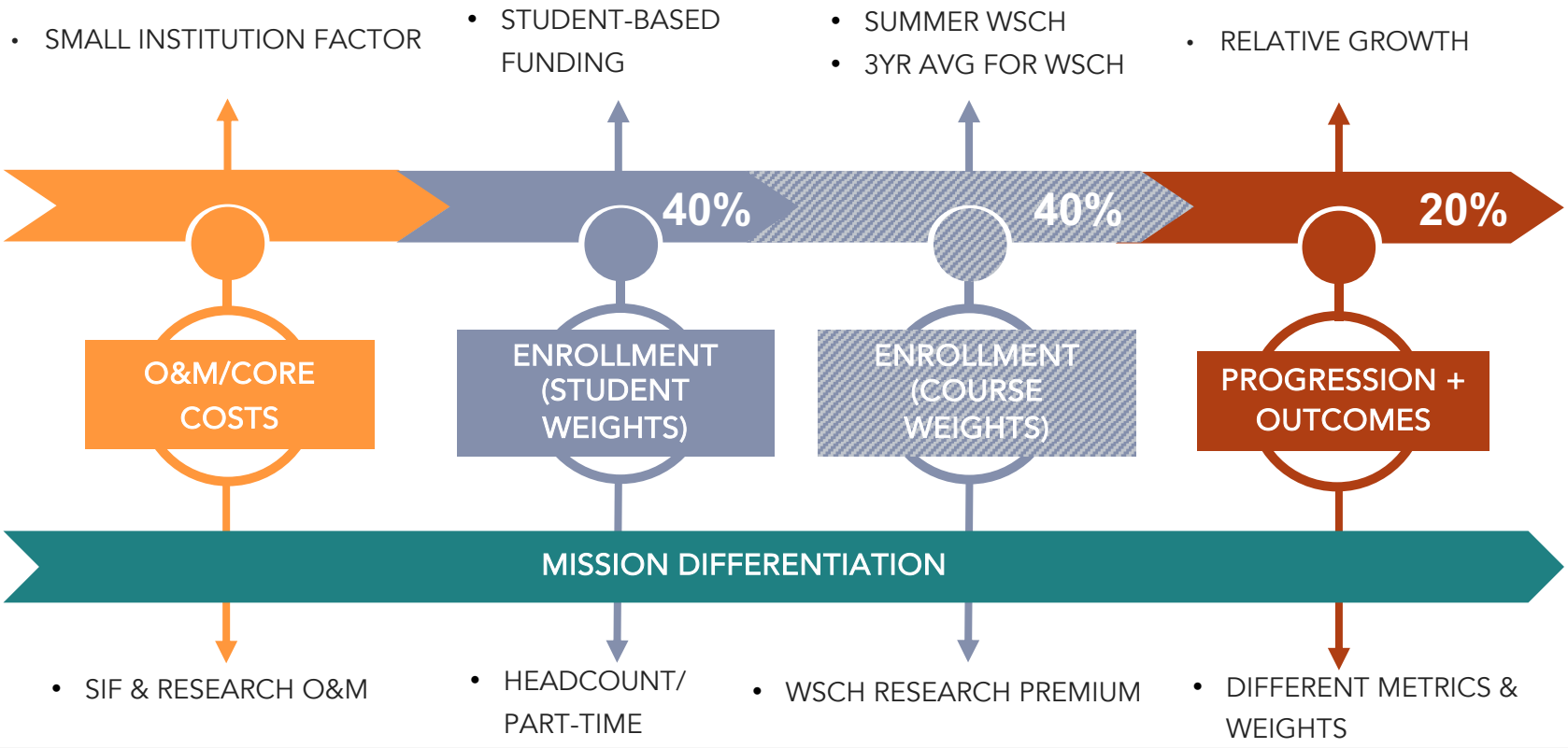
State	Base +	O&M/ Core Costs	Enrollment	Weighted Enrollment - Cost	Weighted Enrollment - Student	OBF	OBF Equity
MN *Both Sectors*	✓	✓ (Facilities, academic sq.ft)	✓ (FTE + Headcount)		✓ (Pell + First Generation)	✓ (Persistence + Completion)	✓ (Students of Color)
OR *2yr*		✓ (Base payment, small school factor)	✓ (FTE + Headcount)	✓ (CTE courses)	✓ (Adults, low-income, URM)	✓ (Progression, completion, CTE)	✓ (Adults, low-income, URM)
OR *4yr*		✓ (Base payment, regional access)	✓ (Credit hour)	✓ (Program and course level)		✓ (Degrees, high-demand areas)	✓ (Low-income, rural, veteran, URM)

Formula Components By State

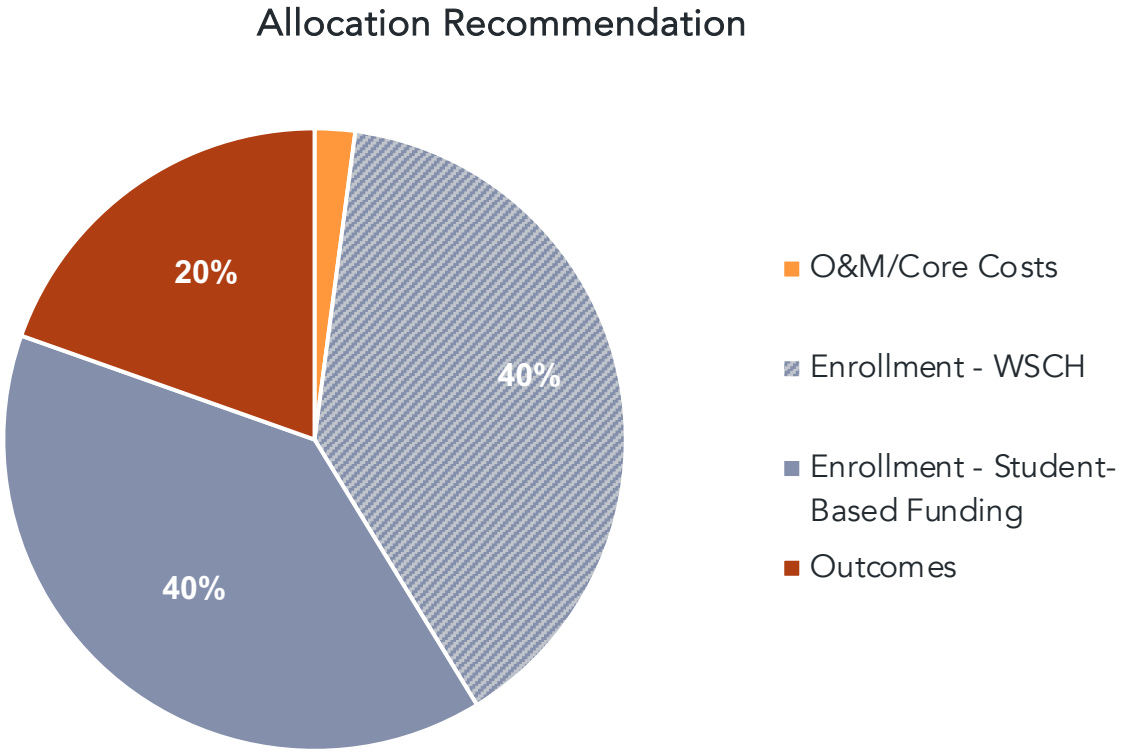


*HCM proposed structure as described throughout presentation

HCM Recommendations for Nevada Within Each Component



HCM Recommendations for Nevada Within Each Component



Component Recommendations

- For each component, we address:
  - ✓ Best practices
  - ✓ Stakeholder input
  - ✓ Recommendation and rationale
  - ✓ Impact on allocation

Institution	2021-2022 WSCHs	Share of WSCHs	FY 2025
UNLV	1,149,097	38%	$203,911,119
UNR	763,960	25%	$138,154,676
NSU	176,879	6%	$30,696,028
CSN	564,061	19%	$97,888,483
GBC	81,614	3%	$14,715,080
TMCC	204,001	7%	$35,402,848
WNC	89,534	3%	$15,851,936
Total	**3,029,145**	**100%**	**$536,620,170**

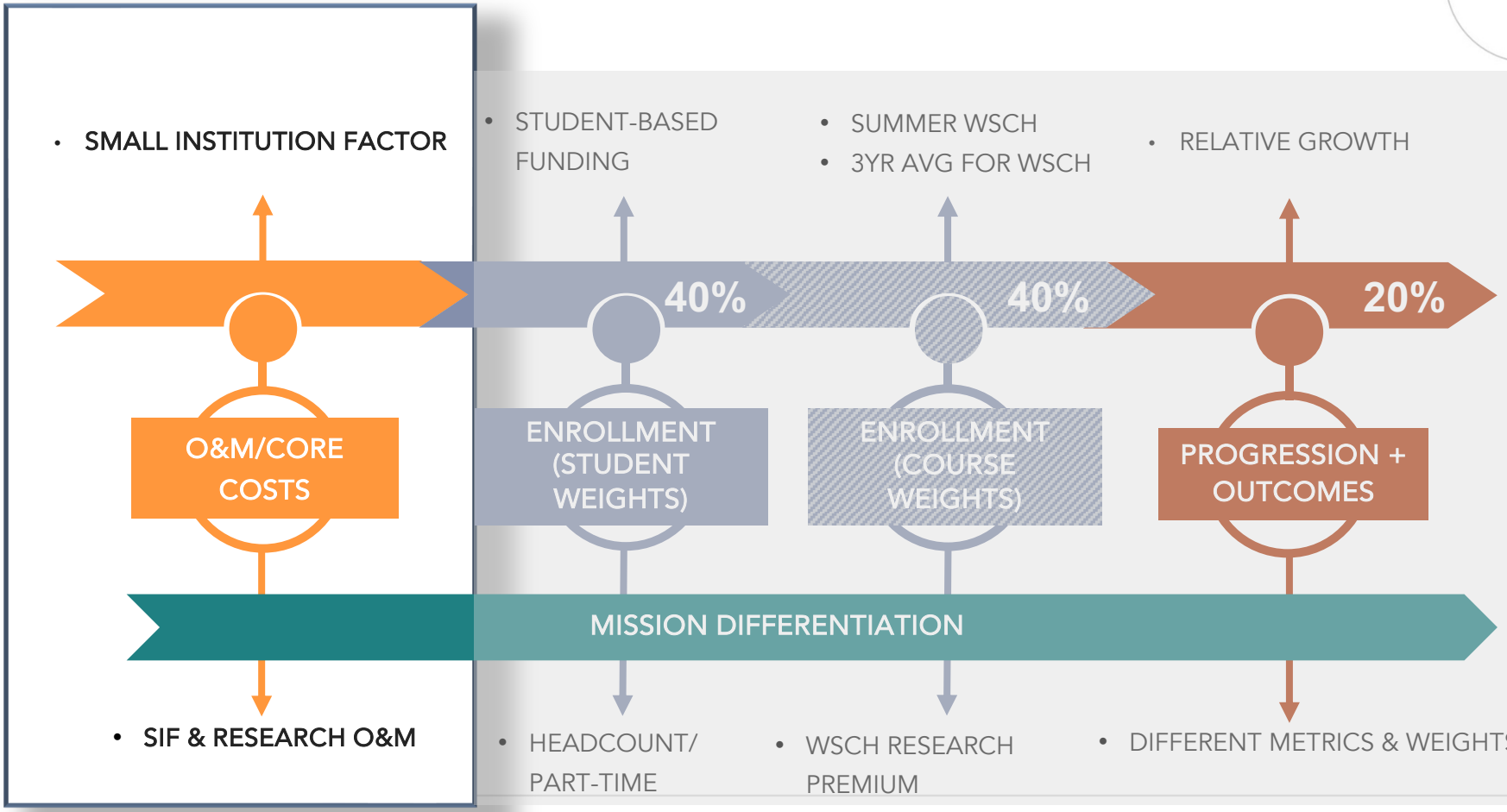
- The baseline for the impact on allocation is FY 2025 if the formula had been used, including the SIF and Research O&M but excluding enhancements.
- This baseline uses the most current official WSCH available and is representative of the allocation for purposes of estimating formula impacts of proposed adjustments being modeled.

Implementation Considerations

- Any changes to a funding formula in a revenue neutral environment will result in some redistribution.
- This should not be a reason for avoiding change - particularly if the change strengthens alignment of funding policy to state goals and/or addressing noted deficiencies in existing model.
- However, in shifting to a new funding formula, it is a best practice to phase it in over time to provide stability for institutions.

- Additionally, note that the shifts in funding presented in the following slides are not a projection of what will happen in FY26 or beyond; they are estimates using past data.
- The overall appropriation level and changes in WSCH are likely to have a larger impact on the overall funding level in FY26 than the proposed recommendations.

O&M/Core Costs-Small Institution Factor


• SMALL INSTITUTION FACTOR
• STUDENT-BASED FUNDING
• SUMMER WSCH
• 3YR AVG FOR WSCH
• RELATIVE GROWTH
40%
40%
20%
O&M/CORE COSTS
ENROLLMENT (STUDENT WEIGHTS)
ENROLLMENT (COURSE WEIGHTS)
PROGRESSION + OUTCOMES
MISSION DIFFERENTIATION
• SIF & RESEARCH O&M
• HEADCOUNT/ PART-TIME
• WSCH RESEARCH PREMIUM
• DIFFERENT METRICS & WEIGHTS

Small Institution Factor

Best Practice Principles:

- Provide core funding to support basic operations of institutions
- Account for economies of scale
- States often provide adjustments for small schools or a guaranteed amount per institution: OR, IL, TX

Nevada Stakeholder Feedback:

- $30 per credit hour value has not kept up with inflation
- Small college costs: The same course at a small college doesn't bring in nearly as much tuition revenue; small course sizes are a student success strategy worth investing in; rural activities are very expensive
- Using headcount for the small institution factor would better serve small colleges

HCM Recommendation:

- **Increase value to inflation-adjusted level ($40*) and continue to adjust for inflation in all future years**

** Based on HEPI from 2013 to 2023*

Small Institution Factor

Increasing the SIF to keep up with inflation ($40) has a **very** minimal impact on the WSCH value.

	SIF-eligible WSCH	FY 2025 SIF Actual	FY 2025 SIF w/ Inflation Adjustment
GBC	18,386	$551,580	$735,440
WNC	10,466	$313,980	$418,640
Total	**28,852**	**$865,560**	**$1,154,080**

	Actual FY25	With SIF Increase
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($1,154,080)
Less: Research O&M	($10,069,090)	($10,069,090)
Subtotal	$525,685,520	$525,397,000
Divided by FY 2022 WSCH	3,029,145	3,029,145
FY 2025 Legislatively Approved WSCH Value	**$173.54**	**$173.45**

FY25 Impact of Increase to Small Institution Factor Value on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With SIF Value Increase		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$203,801,670	38.0%	-$109,449	-0.02%	-0.1%
UNR	$138,154,676	25.7%	$138,081,910	25.7%	-$72,766	-0.01%	-0.1%
NSU	$30,696,028	5.7%	$30,679,181	5.7%	-$16,847	0.00%	-0.1%
CSN	$97,888,483	18.2%	$97,834,757	18.2%	-$53,726	-0.01%	-0.1%
GBC	$14,715,080	2.7%	$14,891,166	2.8%	$176,086	0.03%	1.2%
TMCC	$35,402,848	6.6%	$35,383,418	6.6%	-$19,430	0.00%	-0.1%
WNC	$15,851,936	3.0%	$15,948,068	3.0%	$96,132	0.02%	0.6%
Total	$536,620,170		$536,620,170				

Cost Options for Inflation Adjusted WSCH value ($40)

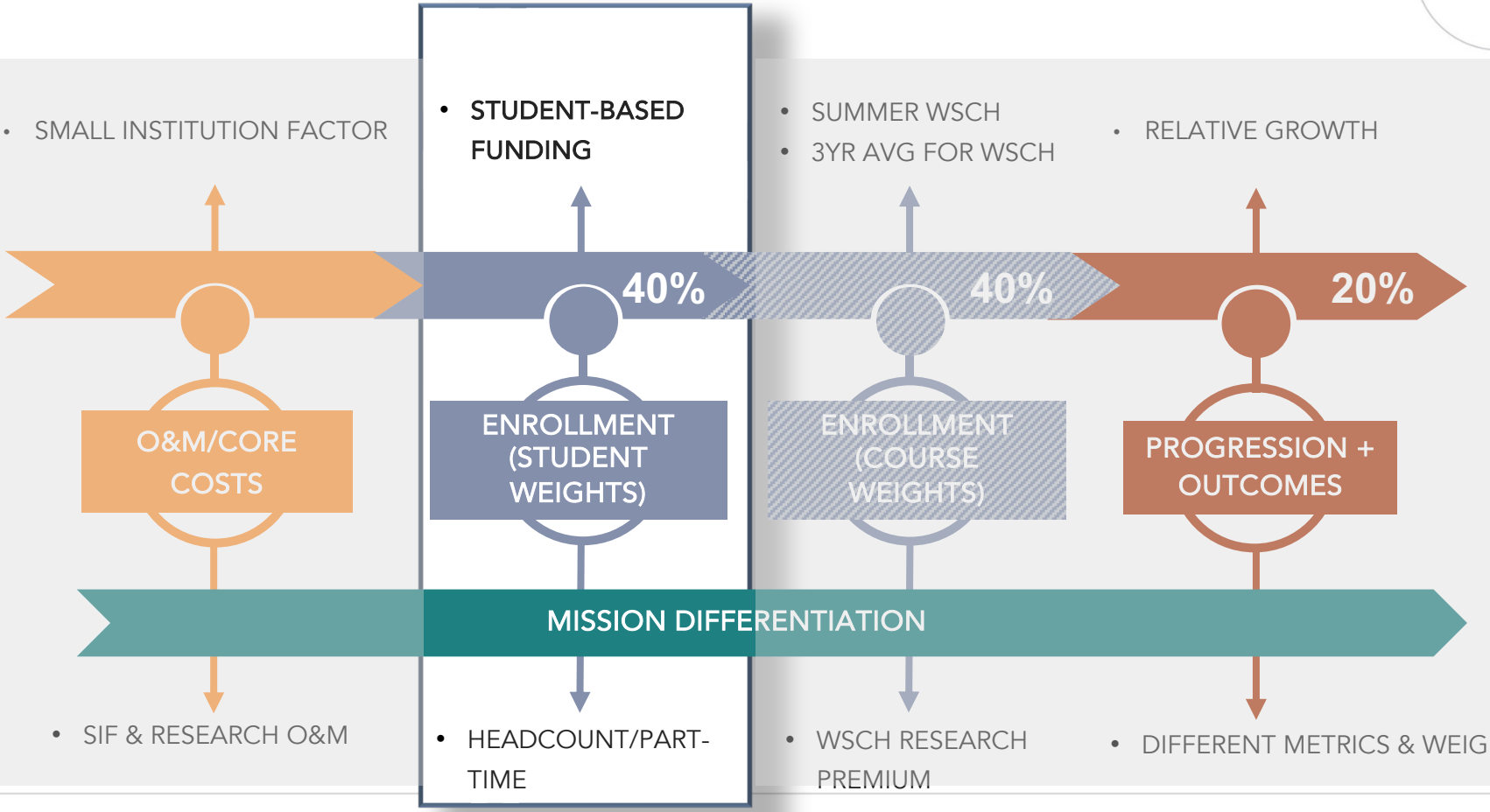
Cost neutral (see prior slide for effects)

Hold harmless - $272,218

- Backfill the reductions for six institutions in the cost neutral scenario.

Enhancement - $288,520

Student-Based Funding


• SMALL INSTITUTION FACTOR
• STUDENT-BASED FUNDING
• SUMMER WSCH
• 3YR AVG FOR WSCH
• RELATIVE GROWTH
40%
40%
20%
O&M/CORE COSTS
ENROLLMENT (STUDENT WEIGHTS)
ENROLLMENT (COURSE WEIGHTS)
PROGRESSION + OUTCOMES
MISSION DIFFERENTIATION
• SIF & RESEARCH O&M
• HEADCOUNT/PART-TIME
• WSCH RESEARCH PREMIUM
• DIFFERENT METRICS & WEIGHTS

Student-Based Funding

Best Practice Principles:

- Provide funding to cover costs related to enrolled students as well as to completed credit hours
- Reduce need to increase or create student fees to cover these costs
- Support additional costs associated with enrolling high priority populations with low rates of postsecondary attainment

Nevada Stakeholder Feedback:

- There is a need to reflect the costs associated with the additional support/services for non-traditional students/specific populations
- Part-time students should be accounted for in order to make the formula more equitable
- Additional weights should be considered for priority populations (Pell, URM, academically underprepared, first-gen, adult)
- Institutions need support for the costs associated with students who don't complete courses as well.

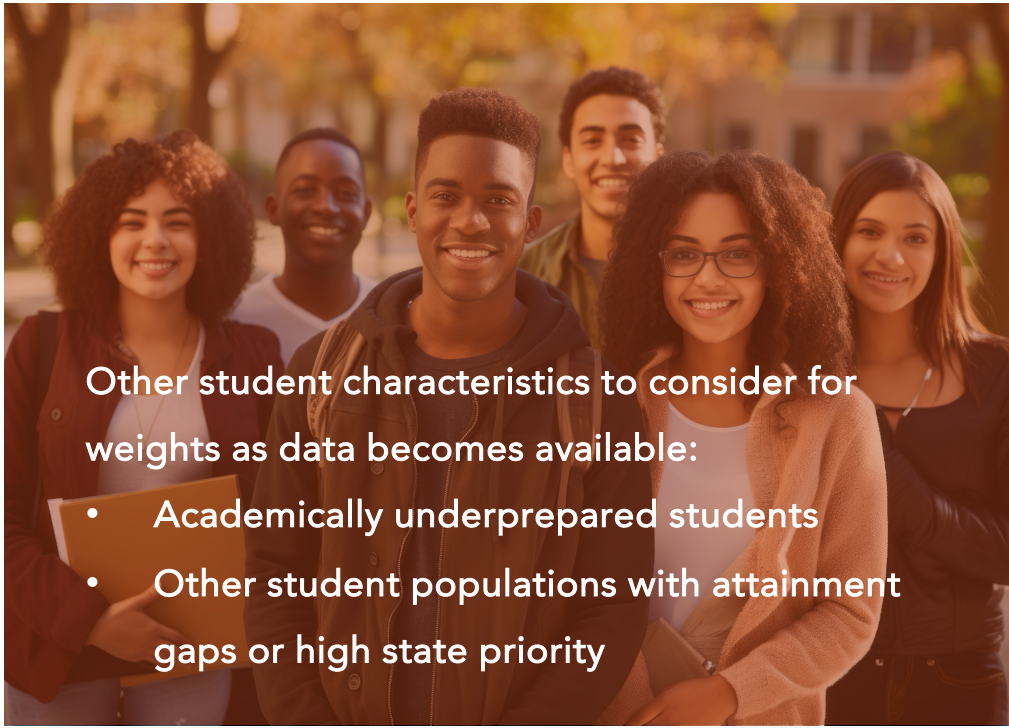
HCM Recommendation:

- **Allocate 40% of total funding based on enrollment (headcount and credit hours) of students, with weights for Pell and URM students.**

What goes into the Student-Based Funding component?

Initial recommendation based on most recent three years and including all students:

- Total student term headcount enrollments + credit hours (FTE)
- URM student headcount enrollments + credit hours
- Pell student headcount enrollments + credit hours
- 50% based on headcount, 50% on credit hours



Weights Help Address Completion and Attainment Gaps

Student Characteristics (as defined by IPEDS)	Graduated within 150% of Normal Time	Difference from Average	Postsec Attainment Rate (among adults)	Difference from Average
All Students	**44%**		**35.5%**	
Black or African American	29%	-15%	30.3%	-5.2%
Hispanic or Latino	39%	-5%	20.4%	-15.1%
Native Hawaiian or Pacific Islander	22%	-22%	N/A	N/A
American Indian or AK Native	40%	-4%	19.6%	-15.9%
Total Underrepresented Minority (URM)	**37%**	**-7%**		
White	54%	10%		
Asian	49%	5%		
Pell	**35%**	**-9%**		
Non-Pell	49%	5%		

Sources: IPEDS & Lumina Foundation's "Stronger Nation" report

From 2020-21 to 2022-23, NSHE institutions had 727,473 total student headcount enrollments and 6,841,478 credit hours.

+

287,710 of those enrollments were underrepresented minority students who took 2,673,605 credit hours.

+

186,867 of those enrollments were Pell recipients who took 2,053,105 credit hours.

=

	Share of total headcount	Share of total credit hours	Share of URM headcount	Share of URM credit hours	Share of Pell headcount	Share of Pell credit hours	Share of Total
UNLV	29.45%	34.39%	29.53%	34.81%	36.12%	39.20%	32.9%
UNR	19.27%	22.92%	12.91%	15.73%	15.40%	18.04%	18.8%
NSU	6.71%	5.47%	8.16%	7.12%	6.35%	6.02%	6.5%
CSN	29.04%	24.09%	36.13%	30.63%	31.64%	27.00%	28.6%
GBC	3.21%	2.88%	2.57%	2.39%	2.29%	2.32%	2.8%
TMCC	9.11%	7.48%	8.37%	7.19%	5.74%	5.18%	7.7%
WNC	3.21%	2.77%	2.33%	2.14%	2.46%	2.24%	2.7%

FY25 Impact of Allocating 40% Through Student-Based Funding on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With 40% Student-Based Funding Component		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$193,374,182	36.0%	-$10,536,937	-2.0%	-5.2%
UNR	$138,154,676	25.7%	$124,588,269	23.2%	-$13,566,407	-2.5%	-9.8%
NSU	$30,696,028	5.7%	$32,038,273	6.0%	$1,342,245	0.3%	4.4%
CSN	$97,888,483	18.2%	$118,931,834	22.2%	$21,043,351	3.9%	21.5%
GBC	$14,715,080	2.7%	$14,915,798	2.8%	$200,718	0.0%	1.4%
TMCC	$35,402,848	6.6%	$37,446,156	7.0%	$2,043,308	0.4%	5.8%
WNC	$15,851,936	3.0%	$15,325,657	2.9%	-$526,279	-0.1%	-3.3%
Total	$536,620,170		$536,620,170				

Cost Options for Student-Based Funding

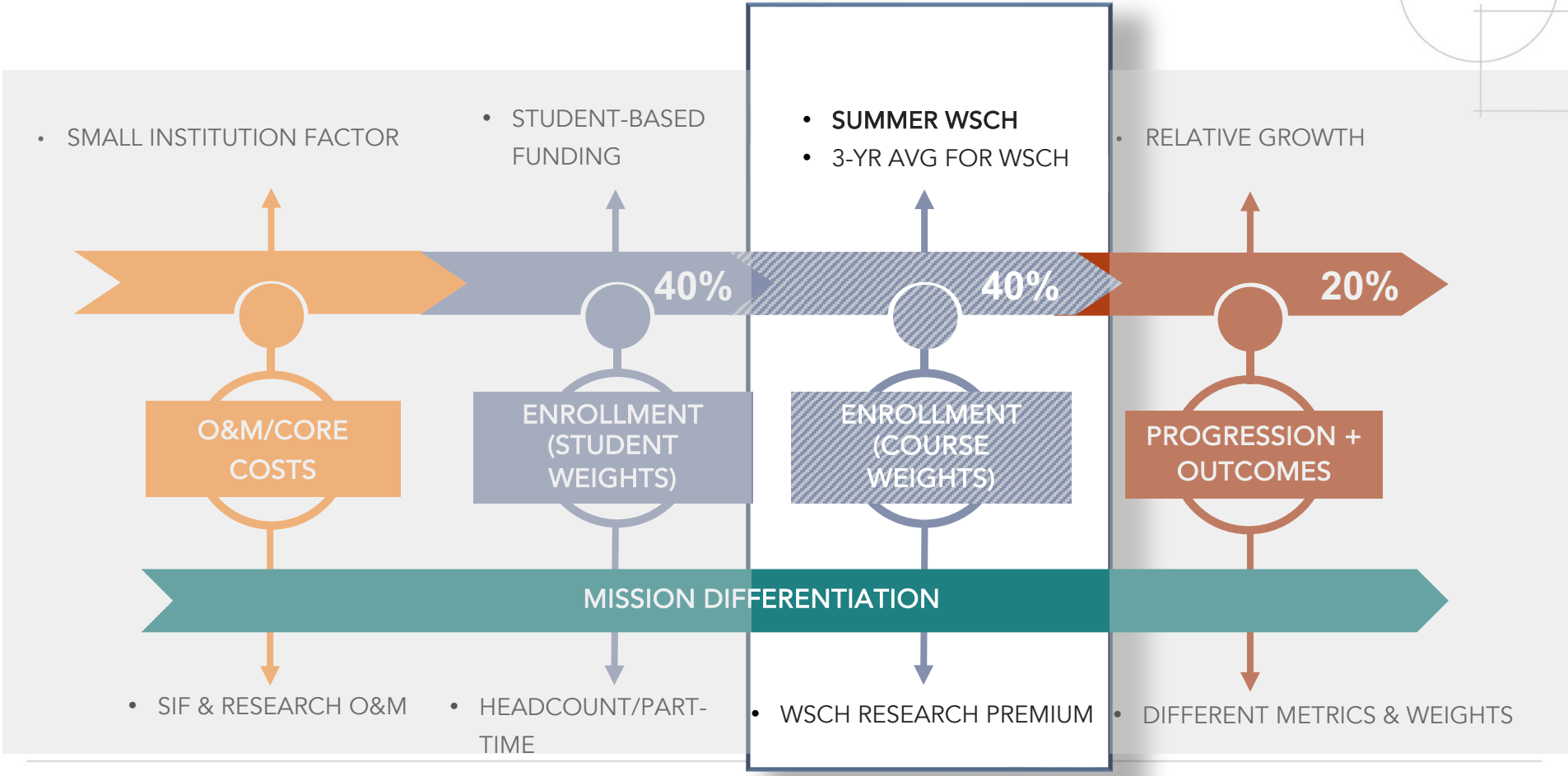
Cost neutral (see prior slide for effects)

Hold harmless - $24.6M

- Backfill the reductions for three institutions in the cost neutral scenario.

Enhancement - $210.3M (+40% to current appropriation)

WSCHs - Summer Credit Hours


• SMALL INSTITUTION FACTOR
• STUDENT-BASED FUNDING
• SUMMER WSCH
• 3-YR AVG FOR WSCH
• RELATIVE GROWTH
40%
40%
20%
O&M/CORE COSTS
ENROLLMENT (STUDENT WEIGHTS)
ENROLLMENT (COURSE WEIGHTS)
PROGRESSION + OUTCOMES
MISSION DIFFERENTIATION
• SIF & RESEARCH O&M
• HEADCOUNT/PART-TIME
• WSCH RESEARCH PREMIUM
• DIFFERENT METRICS & WEIGHTS

WSCH - Summer Credit Hours

Best Practice Principles:

- The timing of a student's enrollment is not relevant to state policy objectives
- Year-Round Pell Grant shows evidence of the positive impact of supporting year-round enrollment
- HCM has not identified another state that excludes summer courses

Nevada Stakeholder Feedback:

- Institutions respond to the perverse incentives by offering courses based on funding, not on pedagogy or student needs
- Funding summer courses will provide greater access, flexibility, and allow students to stay on track with degree requirements and complete in a more timely manner.
- Nursing courses are already funded in the summer, other programs should be funded the same

HCM Recommendation:

- **Include all WSCH in the formula regardless of term; remove the disincentive to offer summer courses.**
- **NSHE could request an enhancement but should pursue this policy with or without new funding.**

FY25 Impact of Including Summer WSCH in Formula on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With Summer Credit Hours		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$205,645,530	38.3%	$1,734,411	0.3%	0.9%
UNR	$138,154,676	25.7%	$136,296,988	25.4%	-$1,857,688	-0.3%	-1.3%
NSU	$30,696,028	5.7%	$30,463,889	5.7%	-$232,139	0.0%	-0.8%
CSN	$97,888,483	18.2%	$100,783,971	18.8%	$2,895,488	0.5%	3.0%
GBC	$14,715,080	2.7%	$13,814,941	2.6%	-$900,139	-0.2%	-6.1%
TMCC	$35,402,848	6.6%	$34,453,459	6.4%	-$949,389	-0.2%	-2.7%
WNC	$15,851,936	3.0%	$15,161,392	2.8%	-$690,544	-0.1%	-4.4%
Total	$536,620,170		$536,620,170				

Cost Options for WSCH Summer Credit Hours

Cost neutral (see prior slide for effects)

- Increase of 241,225 WSCH
- New FY 25 WSCH value: $160.74

Hold harmless - $4.6M

- Backfill the reductions for six institutions in the cost neutral scenario.

Enhancement - $41.9M

- All 241,225 WSCHs funded at the FY 25 WSCH value of $173.54

WSCH - Summer Credit Hours *Funded As An Enhancement*

Institution	FY 2025 Allocation	Estimated* WSCH Summer Credit Hours	Enhancement	% Increase
UNLV	$203,911,119	102,298	$17,753,055	9%
UNR	$138,154,676	49,281	$8,552,310	6%
NSU	$30,696,028	12,642	$2,193,844	7%
CSN	$97,888,483	62,932	$10,921,390	11%
GBC	$14,715,080	899	$156,086	1%
TMCC	$35,402,848	10,339	$1,794,302	5%
WNC	$15,851,936	2,834	$491,825	3%
Total	**$536,620,170**	**241,225**	**$41,862,812**	**8%**

* Summer credit hour data was provided for 2023. The proportion of those hours to all credit hours was used to estimate the proportion of summer credit hours in the WSCH count year 2021-2022.

WSCH - Summer Credit Hours

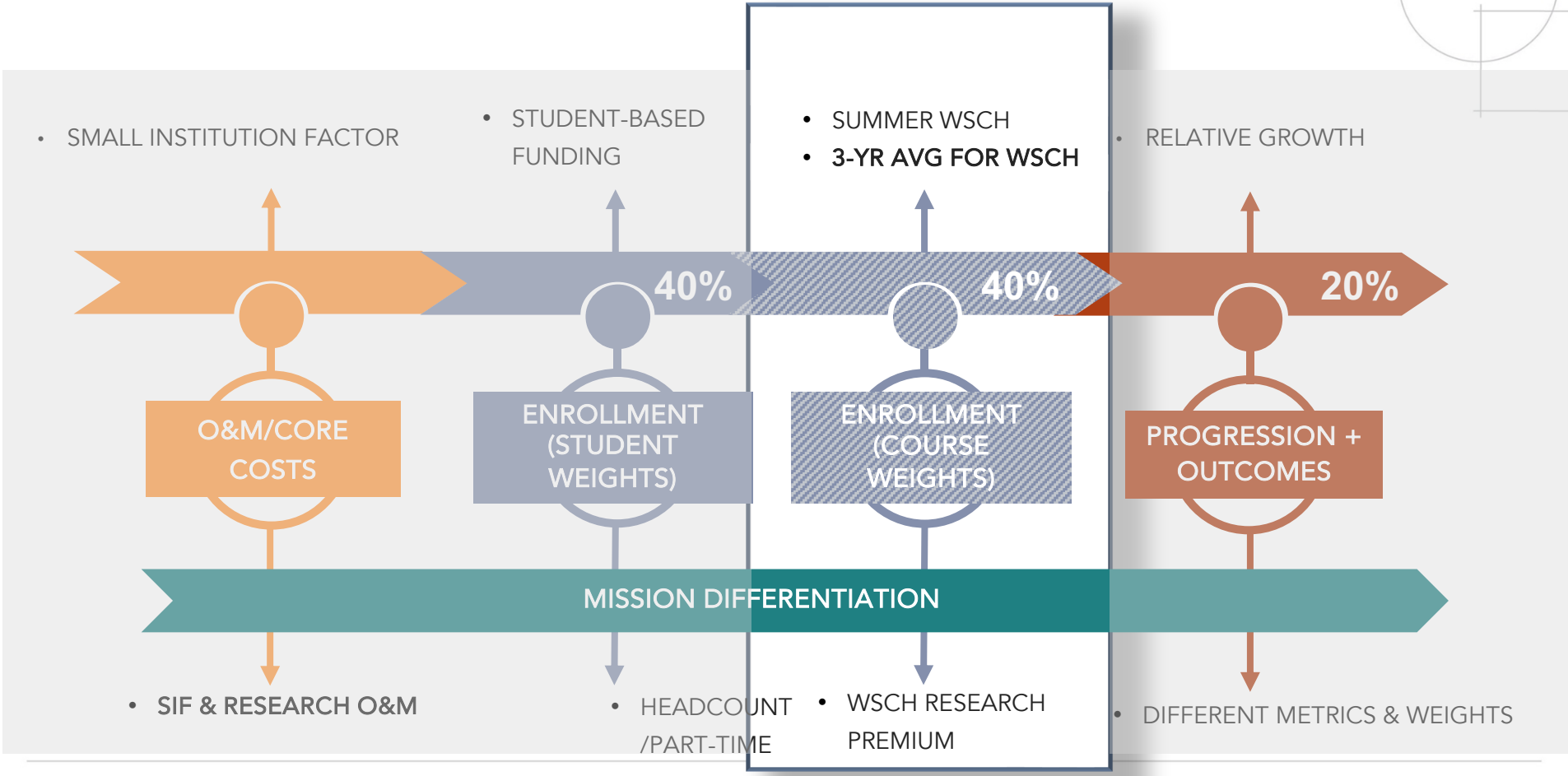
Related Issue: Treatment of Summer Course Revenue

- Currently, student fee revenue generated from non-state summer courses is 'self-supporting' revenue not part of the state-supported operating budget while summer term fee revenues for Nursing and Teaching eligible WSCH are allocated to the state-supported operating budget.
- Making Summer Credit Hours for all courses count in the WSCH allocation may raise the question of whether those revenues should be treated the same as all other revenue, even if no additional state funds are allocated.
- Possible Approaches:
  a. Leave Summer Term WSCH and related revenue as is
  b. Count all Summer Term WSCH in formula but leave Summer student fee revenue the same
  c. Develop a new policy that includes or excludes revenue based on a clear policy rationale (e.g., high priority course, state role vs institutional role)

HCM Recommendation:

- **Option B - leave treatment of summer course student fee revenue as is for now - while NSHE and stakeholders explore ways to structure Option C.**

WSCHs - Count Years


• SMALL INSTITUTION FACTOR
• STUDENT-BASED FUNDING
• SUMMER WSCH
• 3-YR AVG FOR WSCH
• RELATIVE GROWTH
40%
40%
20%
O&M/CORE COSTS
ENROLLMENT (STUDENT WEIGHTS)
ENROLLMENT (COURSE WEIGHTS)
PROGRESSION + OUTCOMES
MISSION DIFFERENTIATION
• SIF & RESEARCH O&M
• HEADCOUNT /PART-TIME
• WSCH RESEARCH PREMIUM
• DIFFERENT METRICS & WEIGHTS

WSCH - Count Years

Best Practice Principles:

- ✓ Using a 3-year average creates greater stability
- ✓ Most states use a 3-year average, others the prior year, and a few use the greater of the two.

Nevada Stakeholder Feedback:

- Every-other-year counting and the lag time for the formula creates a disconnect between costs and resources.

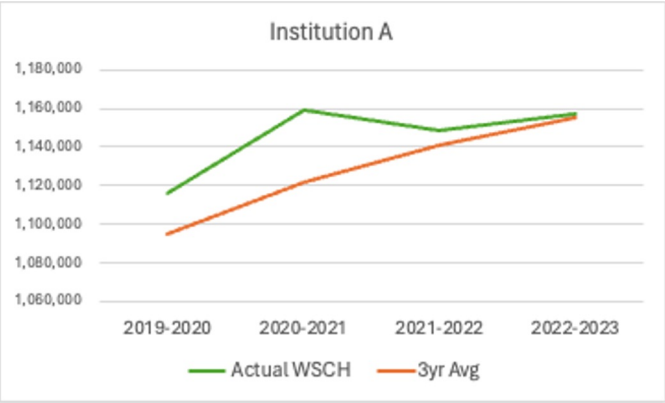
HCM Recommendation:

- **Base the WSCH count for each year of measure on a 3-year average**
- **Use the same caseload growth process for the second year of biennium, but based on the 3-year average figures for the years of measure.**

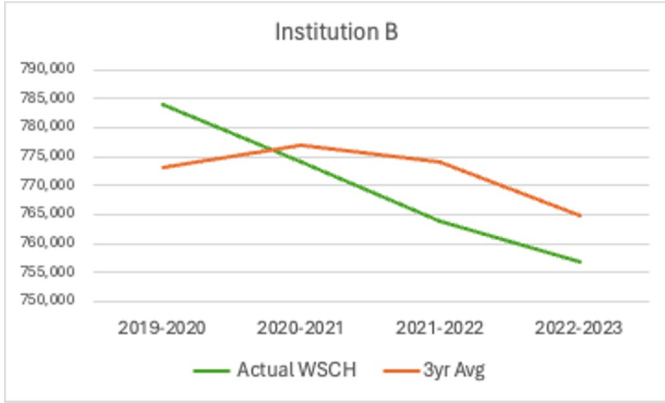
WSCH – 3-Year Average

Implications of Using a 3-Year Average

- Smooths out aberrations, but also means resources can lag behind an enrollment trend.
- Whether to use a three-year average is something of a policy choice:
  - For institutions with declining enrollment, it provides a buffer against dropping tuition revenue.
  - At growing institutions, state funding does not keep up with costs as much, though they do receive more in tuition revenue.



Institution A's steady growth in WSCH means its 3-yr avg has lagged behind.



Institution B's WSCH increased up until 2019-2020, so the 3-yr avg was below actual. But now actuals are declining, so the 3-yr average is higher.

FY25 Impact of Using a 3-Year Average for WSCHs on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - Using a 3-yr Avg for WSCHs		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$199,581,583	37.2%	-$4,329,536	-0.8%	-2.1%
UNR	$138,154,676	25.7%	$137,871,787	25.7%	-$282,889	-0.1%	-0.2%
NSU	$30,696,028	5.7%	$28,786,556	5.4%	-$1,909,472	-0.4%	-6.2%
CSN	$97,888,483	18.2%	$103,661,013	19.3%	$5,772,530	1.1%	5.9%
GBC	$14,715,080	2.7%	$15,322,377	2.9%	$607,297	0.1%	4.1%
TMCC	$35,402,848	6.6%	$36,334,583	6.8%	$931,735	0.2%	2.6%
WNC	$15,851,936	3.0%	$15,062,271	2.8%	-$789,665	-0.1%	-5.0%
Total	$536,620,170		$536,620,170				

Cost Options for Using a 3-Year WSCH Average

Cost neutral (see prior slide for effects)

- Increase of 46,246 WSCH
- New FY25 WSCH value: $170.93

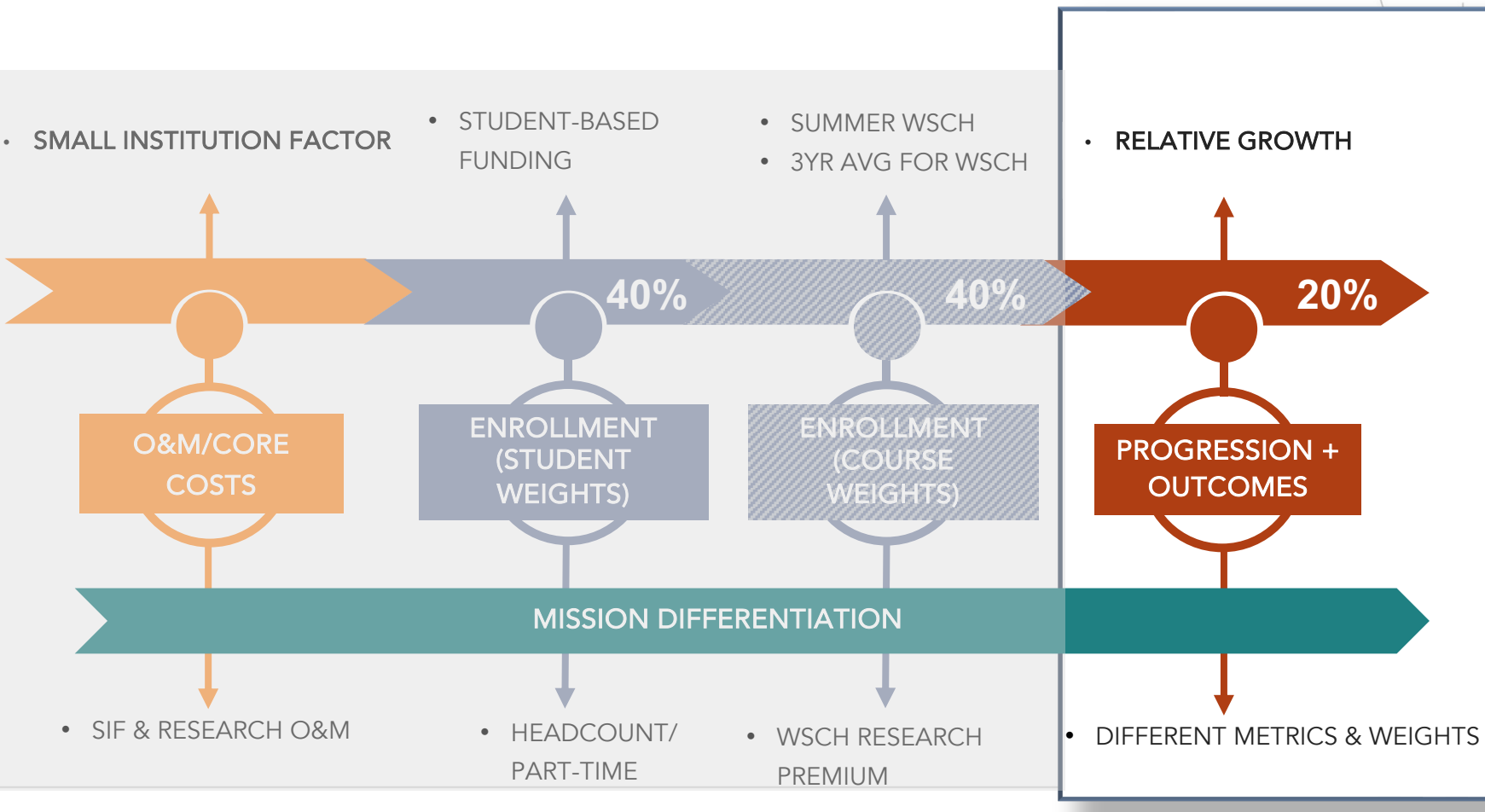
Hold harmless - $7.3M

- Backfill the reductions for four institutions in the cost neutral scenario.

Enhancement - $8.0M

- All 46,246 WSCHs funded at the FY25 WSCH value of $173.54

Outcomes-Based Funding & the Performance Pool


• SMALL INSTITUTION FACTOR
• STUDENT-BASED FUNDING
• SUMMER WSCH
• 3YR AVG FOR WSCH
• RELATIVE GROWTH
40%
40%
20%
O&M/CORE COSTS
ENROLLMENT (STUDENT WEIGHTS)
ENROLLMENT (COURSE WEIGHTS)
PROGRESSION + OUTCOMES
MISSION DIFFERENTIATION
• SIF & RESEARCH O&M
• HEADCOUNT/ PART-TIME
• WSCH RESEARCH PREMIUM
• DIFFERENT METRICS & WEIGHTS

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

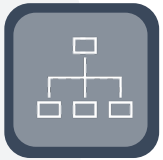
SUGGESTIONS ELEVATED FROM INSTITUTIONAL FEEDBACK AND INTERVIEWS

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.



Drawbacks of Eliminating the Performance Pool or New Money Only models:

- NV's budget picture for next year indicates little or no increase in funding.
- The state has significant progress to make on attainment and equity gaps, and should incentivize those goals in its formula every year.
- The transparency and accountability of outcomes-based funding models can help secure legislative support for more funding.

Outcomes-Based Funding

HCM Recommendation:

- As part of the balanced framework, fund performance through a separate OBF component of the formula (20% of total funding).
- Allocate this new OBF component based on Relative Growth.
- This allows for:
  - Incentives for continuous improvement
  - Mission differentiation through institution-specific metrics and weights
  - No earn back of WSCH funding
  - Immediate implementation with no major swings in funding
  - Does not involve setting arbitrary targets for performance
- ***If the Committee does not wish to pursue a recurring and distinct OBF component, HCM recommends maintaining the Performance Pool structure but rebaselining targets each year.***

Common Approaches to Allocating OBF Funds

Share of Outcomes

- An institution's annual share of the total OBF funding is based on its share of the total outcomes produced.

Relative Growth

- Institutions' share of the total OBF funding changes each year based on their annual improvement on their own metrics relative to that of the other institutions.

These approaches are used in 74% of 4-year OBF models and 87% of 2-year models. Neither approach involves setting targets for institutions.

HCM recommends Relative Growth as it can be implemented immediately without causing large swings in funding in the first year and maintains mission differentiation..

Share of Outcomes requires the metrics and weights to be comparable across institutions, which would require significant reevaluation of the metrics and weights.

Impact of Outcomes-Based Funding Component on WSCH

- The OBF would be a percentage of the total appropriation after the SIF and Research O&M set-asides, with the rest being allocated by WSCH.
- This may require an adjustment to calculating caseload growth, which uses WSCH trends to estimate the increase to the total funding level.

	Actual FY25	With OBF
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($865,560)
Less: Research O&M	($10,069,090)	($10,069,090)
Subtotal	$525,685,520	$525,685,520
20% for OBF		$105,137,104
80% for WSCH		$420,548,416
Divided by FY 2022 WSCH	3,029,145	3,029,145
FY 2025 Legislatively Approved WSCH Value	**$173.54**	**$138.83**

FY25 Impact of Allocating 20% Through a Relative Growth OBF Component on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With 20% OBF Component		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$205,084,791	38.2%	$1,173,672	0.2%	0.6%
UNR	$138,154,676	25.7%	$137,387,420	25.6%	-$767,256	-0.1%	-0.6%
NSU	$30,696,028	5.7%	$30,713,140	5.7%	$17,112	0.0%	0.1%
CSN	$97,888,483	18.2%	$96,493,874	18.0%	-$1,394,609	-0.3%	-1.4%
GBC	$14,715,080	2.7%	$14,824,883	2.8%	$109,803	0.0%	0.7%
TMCC	$35,402,848	6.6%	$36,133,766	6.7%	$730,918	0.1%	2.1%
WNC	$15,851,936	3.0%	$15,982,295	3.0%	$130,359	0.0%	0.8%
Total	$536,620,170		$536,620,170				

Cost Options for Outcomes-Based Funding

Cost neutral (see prior slide for effects)

Hold harmless - $2.2M

- Backfill the reductions for two institutions in the cost neutral scenario.

Enhancement - $105.1M

(+20% to current appropriation)

Example of the Relative Growth Distribution of Outcomes-Based Funding

	A	B	C	D	E	F	G	H
Institution	FY24 Performance Pool Funding	Share of FY24 Performance Pool $B = A_i / A_{TOT}$	2021-2022 Weighted Points	2022-2023 Weighted Points	Change in Points $E = D/C-1$	Performance Pool Share Growth $F = B*(1+E)$	FY25 OBF Share $G = F_i / F_{TOT}$	FY25 OBF Allocation $H = G *$ Total Pool Funding
UNLV	$39,707,426	37.9%	2861.3	2936.6	2.6%	38.9%	39.1%	$41,034,566
UNR	$26,398,900	25.2%	2384.5	2308.5	-3.2%	24.4%	24.5%	$25,734,525
NSU	$6,112,114	5.8%	876.5	876.3	0.0%	5.8%	5.9%	$6,152,939
CSN	$19,491,302	18.6%	4238.4	3924.6	-7.4%	17.2%	17.3%	$18,173,108
GBC	$2,820,199	2.7%	545.6	565.1	3.6%	2.8%	2.8%	$2,940,889
TMCC	$7,049,324	6.7%	1660.5	1826.4	10.0%	7.4%	7.4%	$7,807,200
WNC	$3,093,878	3.0%	668.8	694.7	3.9%	3.1%	3.1%	$3,236,173
Total	**$104,673,143**	100.0%	13235.6	13132.2	-0.8%	99.7%	100.0%	**$105,079,400**

Outcomes-Based Funding

Institutions and committee members have raised certain concerns about creating a separate OBF component in the funding formula.

Concern	Response
Creates direct competition between institutions	Changes, but does not increase competition, as institutions already compete with each other for WSCHs. Decoupling performance from WSCH offers another avenue to increase funding. The current structure has disadvantaged institutions with strong performance but not as strong enrollment growth.
Unpredictable and difficult to budget	WSCHs are similarly unpredictable and volatile as outcomes. In both OBF and WSCH, an institution's allocation depends on the other institutions.
Possible to improve outcomes but still lose funding	This is also true under the current model, due to the connection to WSCHs.

Competition for WSCH vs. Outcomes

- Some institutions would have benefitted from an allocation based on outcomes.
- These institutions may have increased their overall credit hours, but not as much as others. But they improved their performance relative to other institutions.
- A formula with a WSCH component and an OBF component would recognize both types of changes, both of which align with state goals (access/enrollment and attainment).

Change in Share of State Total WSCH and Performance Points - 2014 to 2022		
	WSCH	Performance Pool Points
UNLV	2.4%	0.4%
UNR	-0.2%	0.7%
NSU	2.2%	3.4%
CSN	-3.8%	-5.6%
GBC	0.3%	0.0%
TMCC	-1.0%	0.2%
WNC	0.2%	1.0%

Outcomes-Based Funding

HCM Recommendation:

- As part of the Balanced Approach, fund performance through a separate OBF component of the formula (20% of total funding).
- Allocate this new OBF component based on Relative Growth.
- This allows for:
  - Incentives for continuous improvement
  - Mission differentiation through institution-specific metrics and weights
  - No earn back of WSCH funding
  - Immediate implementation with no major swings in funding
  - Does not require setting arbitrary targets for performance
- ***If the Committee does not wish to pursue a recurring and distinct OBF component, HCM recommends maintaining the Performance Pool structure but rebaselining targets each year.***

Complete Framework

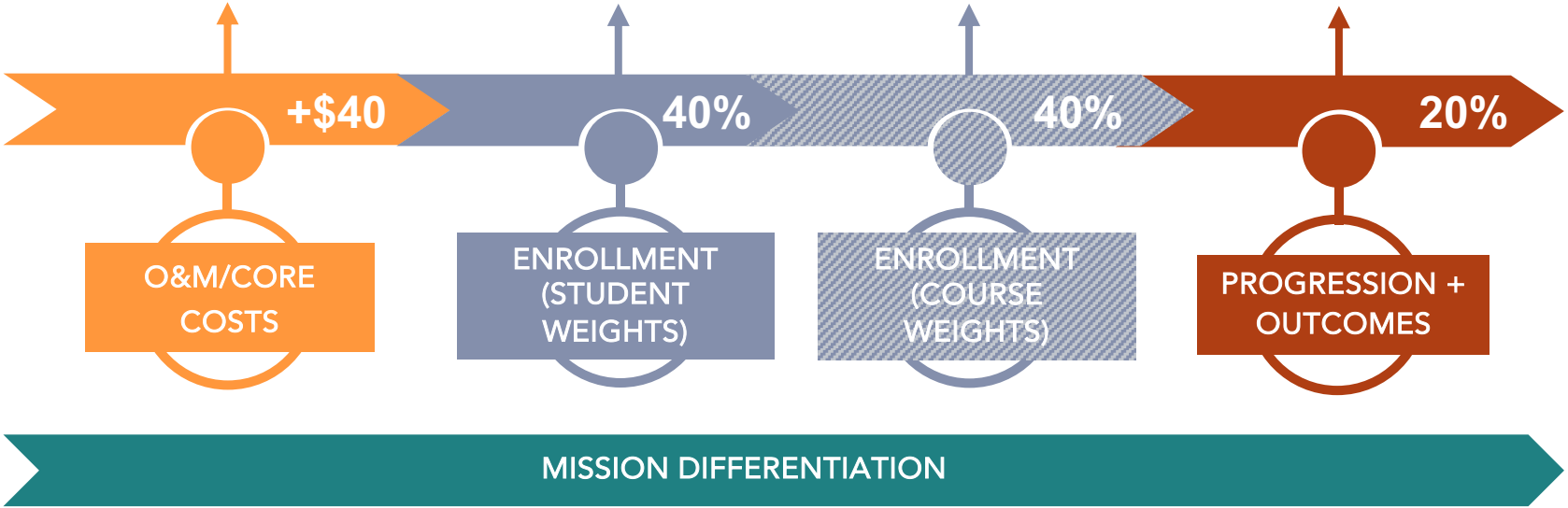
HCM Recommendations for Nevada Within Each Component

- Small institution factor: **increase for inflation to $40**

- Student attributes: **40% of funds allocated based on FTE & headcount, with weights for Pell & URM**

- Summer WSCH: **Count all summer WSCH**
- Year avg for WSCH: **Use a 3-year average**

- Relative growth: **20% of funds allocated based on a Relative Growth OBF formula.**



Impact of 40%-40%-20% Framework on WSCH Value

	Actual FY25	Complete Framework
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($865,560)
Less: Research O&M	($10,069,090)	($10,069,090)
Subtotal	$525,685,520	$525,685,520
20% for OBF		$105,137,100
40% for Student-Based Funding		$210,274,200
40% for WSCH		$210,274,200
Divided by FY 2022 WSCH	3,029,145	3,029,145
FY 2025 Legislatively Approved WSCH Value	**$173.54**	**$69.42**

FY25 Impact of the 40%-40%-20% Framework (Student-Based Funding and Outcomes-Based Funding only) on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - 40-40-20 Framework		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$194,547,855	36.3%	-$9,363,264	-1.7%	-4.6%
UNR	$138,154,676	25.7%	$123,821,014	23.1%	-$14,333,662	-2.7%	-10.4%
NSU	$30,696,028	5.7%	$32,055,385	6.0%	$1,359,357	0.3%	4.4%
CSN	$97,888,483	18.2%	$117,537,226	21.9%	$19,648,743	3.7%	20.1%
GBC	$14,715,080	2.7%	$15,025,602	2.8%	$310,522	0.1%	2.1%
TMCC	$35,402,848	6.6%	$38,177,074	7.1%	$2,774,226	0.5%	7.8%
WNC	$15,851,936	3.0%	$15,456,016	2.9%	-$395,920	-0.1%	-2.5%
Total	$536,620,170		$536,620,170				

FY25 Impact of Combined Recommendations (40%-40%-20%, SIF, Summer Credit Hours, 3-Year Average) on WSCH Value

	Actual FY25	Complete Framework
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($1,154,080)
Less: Research O&M	($10,069,090)	($10,069,090)
Subtotal	$525,685,520	$525,685,520
20% for OBF		$105,137,100
40% for Student-Based Funding		$210,158,800
40% for WSCH		$210,158,800
Divided by FY 2022 WSCH	3,029,145	3,321,076
FY 2025 Legislatively Approved WSCH Value	**$173.54**	**$63.28**

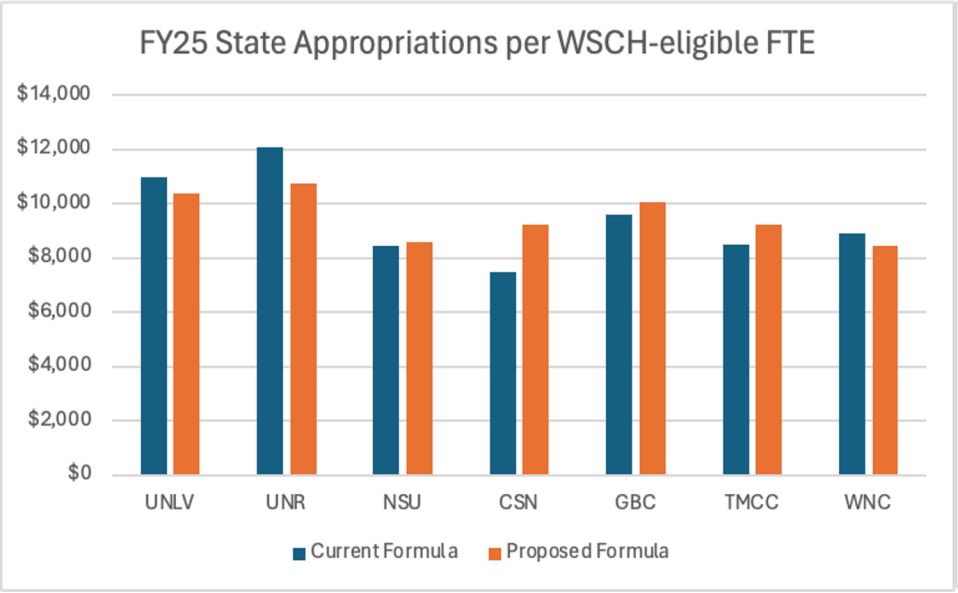
FY25 Impact of the Complete Recommendations (40%-40%-20% plus other recommendations, all combined) on Total Formula Allocations

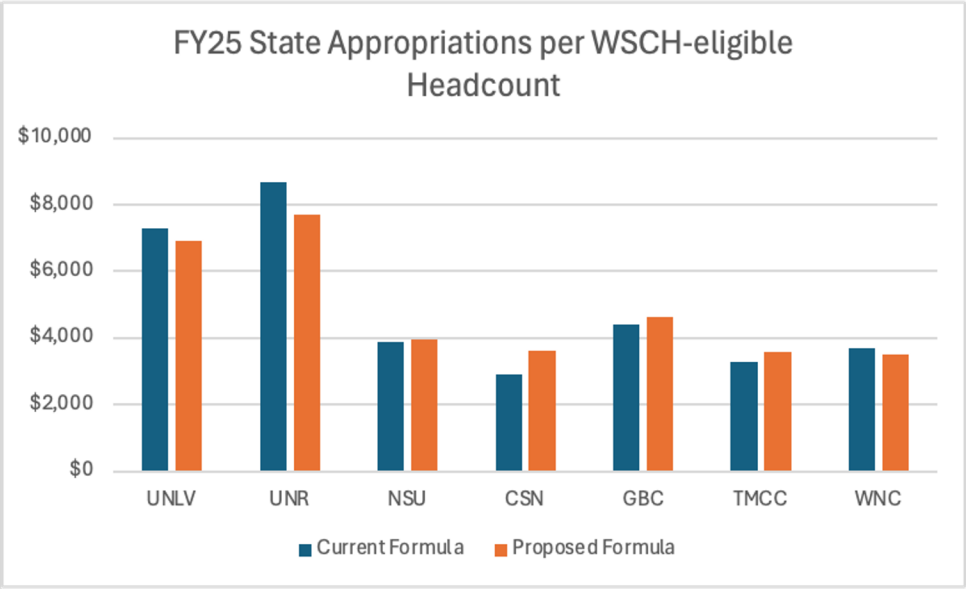
Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With All Recommendations		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$193,372,605	36.0%	-$10,538,514	-2.0%	-5.2%
UNR	$138,154,676	25.7%	$122,889,739	22.9%	-$15,264,937	-2.8%	-11.0%
NSU	$30,696,028	5.7%	$31,184,718	5.8%	$488,690	0.1%	1.6%
CSN	$97,888,483	18.2%	$120,996,300	22.5%	$23,107,817	4.3%	23.6%
GBC	$14,715,080	2.7%	$15,067,722	2.8%	$352,642	0.1%	2.4%
TMCC	$35,402,848	6.6%	$38,135,766	7.1%	$2,732,918	0.5%	7.7%
WNC	$15,851,936	3.0%	$14,973,318	2.8%	-$878,618	-0.2%	-5.5%
Total	$536,620,170		$536,620,170				

Note: The $ change in this table does not match the sum of all individual recommendations changes due to interactions.

Impact of the Proposed Formula

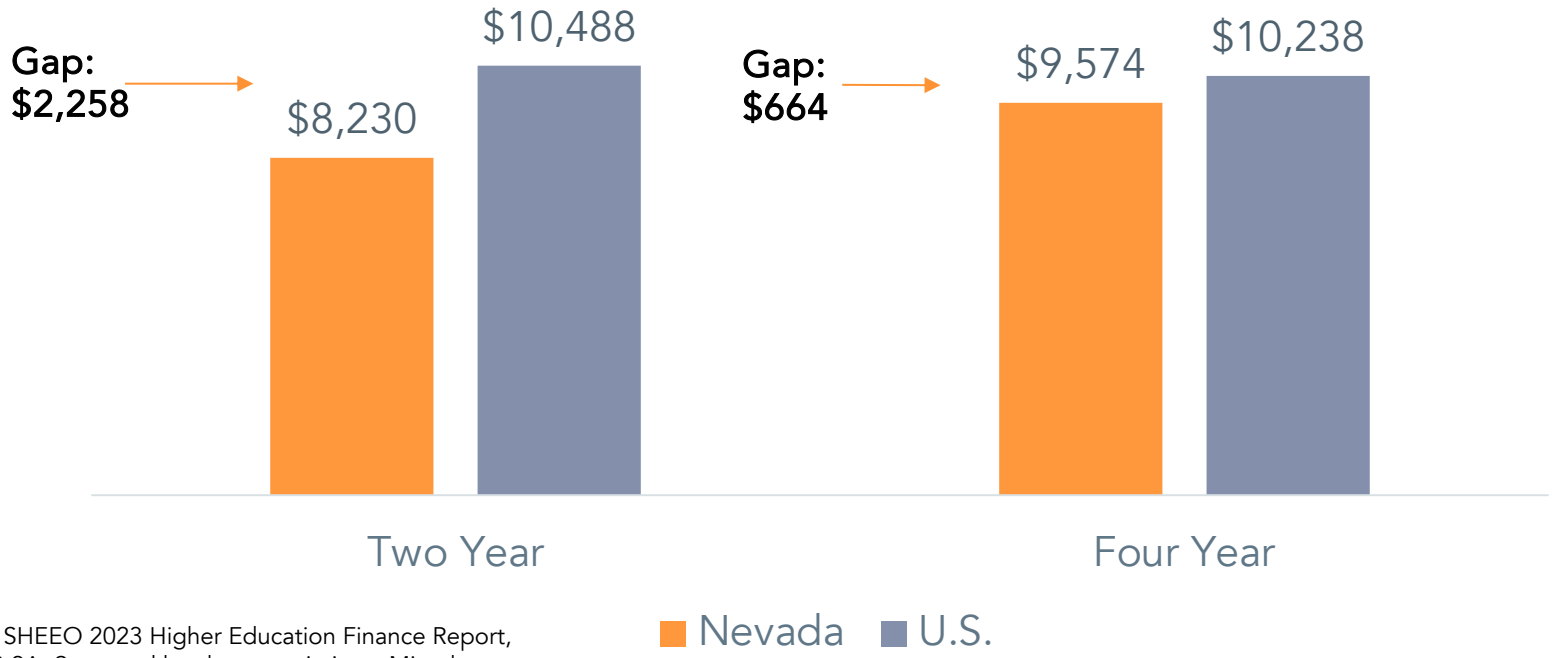
- In the short-term, the biggest impact is from the Student-Based Funding, which allocates more per student to most CCs compared to the WSCH.
- The Outcomes-Based Funding component starts in year one with a distribution similar to WSCH, but that will shift over time based on institutions' performance.





Data: FY25 State Appropriations is the Total General Appropriation including SIF and Research O&M but excluding any other enhancements. FTE and Headcount are derived from NSHE calculations of 2021-2022 WSCHs.

Nevada's Education Appropriations Per FTE Are Lower than U.S. Average for Both Sectors, But 2-Year Institutions in Nevada Have a Larger Gap and Receive Less Than the Four-Year Institutions



Source: SHEEO 2023 Higher Education Finance Report, Figure 3.2A. State and local appropriations. Mixed bachelor's/associate classified as primarily 2-year.

Implementation

Implementation

HCM Recommendation:

- Phase-in the new model over a period of time (e.g., fully implemented in the third biennium. Options include:
  - Use a stop-loss provision (no institution loses more than X% in any given year).
  - Gradually increase the percentages for each component to reach 40%-40%-20%.
  - Fund a hold harmless (initial estimate of $27.3 million)
- Create a formula review committee that convenes every two biennium or every five years to evaluate and propose any necessary changes to the formula.

Appendix

Calculations of WSCH Value by Recommendation

	Actual FY25	SIF WSCH Increase	SIF @150,000	Summer Credit Hours	3Yr Average	Relative Growth	Student Attributes	Combined
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170	$536,620,170	$536,620,170	$536,620,170	$536,620,170	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($1,154,080)	($3,865,560)	($865,560)	($865,560)	($865,560)	($865,560)	($1,154,080)
Less: Research O&M	($10,069,090)	($10,069,090)	($10,069,090)	($10,069,090)	($10,069,090)	($10,069,090)	($10,069,090)	($10,069,090)
Less: OBF						($105,137,104)		($105,079,400)
Less: Student Attributes							($210,274,208)	($210,158,800)
Subtotal	$525,685,520	$525,397,000	$522,685,520	$525,685,520	$525,685,520	$420,548,416	$315,411,312	$210,158,800
Divided by FY 2022 WSCH	3,029,145	3,029,145	3,029,145	3,270,370	3,075,391	3,029,145	3,029,145	3,321,076
FY 2025 Legislatively Approved WSCH Value	$173.54	$173.45	$172.55	$160.74	$170.93	$138.83	$104.13	$63.28

Discrete Impact of Each Recommendation Compared to Actual FY 2025 Allocation

Institution	SIF $40 Increase Scenario	Summer Credit Hours Scenario	3yr Average WSCH	Student-Based Funding Component	Outcomes-Based Funding Component	Total
UNLV	-$109,449	$1,734,411	-$4,329,536	-$10,536,937	$1,173,672	-$12,067,839
UNR	-$72,766	-$1,857,688	-$282,889	-$13,566,407	-$767,256	-$16,547,006
NSU	-$16,847	-$232,139	-$1,909,472	$1,342,245	$17,112	-$799,102
CSN	-$53,726	$2,895,488	$5,772,530	$21,043,351	-$1,394,609	$28,263,034
GBC	$176,086	-$900,139	$607,297	$200,718	$109,803	$193,766
TMCC	-$19,430	-$949,389	$931,735	$2,043,308	$730,918	$2,737,142
WNC	$96,132	-$690,544	-$789,665	-$526,279	$130,359	-$1,779,996

Note: Total will not match "Change" amount on slide 57 due to interactive effects between proposals

Allocation by Component of Proposed Formula Framework

Institution	SIF	Research O&M	WSCH	Student-Based Funding	Outcomes-Based Funding	Total Allocation
UNLV	$0	$4,493,978	$78,652,138	$69,191,923	$41,034,566	$193,372,605
UNR	$0	$5,575,112	$52,136,343	$39,443,759	$25,734,525	$122,889,739
NSU	$0	$0	$11,418,599	$13,613,181	$6,152,939	$31,184,718
CSN	$0	$0	$42,657,487	$60,165,705	$18,173,108	$120,996,300
GBC	$735,440	$0	$5,528,495	$5,862,898	$2,940,889	$15,067,722
TMCC	$0	$0	$14,133,013	$16,195,553	$7,807,200	$38,135,766
WNC	$418,640	$0	$5,632,725	$5,685,781	$3,236,173	$14,973,318
Total	**$1,154,080**	**$10,069,090**	**$210,158,800**	**$210,158,800**	**$105,079,400**	**$536,620,170**

Small Institution Factor

Increasing the SIF cutoff to 150,000 has a slightly larger impact, but still minimal.

	SIF-eligible WSCH @150,000	FY 2025 SIF Actual	FY 2025 SIF w/ 150,000 cutoff
GBC	68,386	$551,580	$2,051,580
WNC	60,466	$313,980	$1,813,980
Total	**128,852**	**$865,560**	**$3,865,560**

	Actual FY25	**With SIF @150,000**
FY 2025 Legislatively Approved (formula) General Fund Appropriation	$536,620,170	$536,620,170
Less: Small Institution Funding	($865,560)	($3,865,560)
Less: Research O&M	($10,069,090)	($10,069,090)
Subtotal	$525,685,520	$522,685,520
Divided by FY 2022 WSCH	3,029,145	3,029,145
FY 2025 Legislatively Approved WSCH Value	**$173.54**	**$172.55**

FY25 Impact of Higher WSCH Treshold for Small Institution Factor on Total Formula Allocations

Institution	FY 2025 Total Allocation		FY 2025 Total Allocation - With Higher SIF Threshold		Change		
	$	% of Total $	$	% of Total $	$	Change in % of Total $	% Change in Allocation
UNLV	$203,911,119	38.0%	$202,773,079	37.8%	-$1,138,040	-0.21%	-0.6%
UNR	$138,154,676	25.7%	$137,398,066	25.6%	-$756,610	-0.14%	-0.5%
NSU	$30,696,028	5.7%	$30,520,851	5.7%	-$175,177	-0.03%	-0.6%
CSN	$97,888,483	18.2%	$97,329,849	18.1%	-$558,634	-0.10%	-0.6%
GBC	$14,715,080	2.7%	$16,134,251	3.0%	$1,419,171	0.26%	9.6%
TMCC	$35,402,848	6.6%	$35,200,810	6.6%	-$202,038	-0.04%	-0.6%
WNC	$15,851,936	3.0%	$17,263,264	3.2%	$1,411,328	0.26%	8.9%
Total	$536,620,170		$536,620,170				

Cost Options for 150,000 WSCH SIF Threshold

Cost neutral (see prior slide for effects)

Hold harmless - $2.8M

- Backfill the reductions for six institutions in the cost neutral scenario.

Enhancement - $3.9M

WSCH - Projections

Other State Examples:

- A few states (FL, TX, OH) use projections in their funding formulas, though some of those combine projections with historical data
- TX recently implemented a model using projected outcomes. Early feedback indicates institutions are concerned about the unpredictability and accuracy of the projections. They are having to budget for the possibility of paying the state back if projections were too high.

The true-up process - reconciling funding once actuals are compared to projections - can be burdensome for institutions.

WSCH - Actual vs 3-Year Average

	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023
Actual WSCH						
UNLV	1,078,000	1,091,000	1,116,000	1,159,000	1,149,000	1,157,000
UNR	763,000	772,000	784,000	774,000	764,000	757,000
NSU	126,000	138,000	157,000	171,000	177,000	173,000
CSN	627,000	642,000	664,000	592,000	564,000	581,000
GBC	76,000	85,000	88,000	90,000	82,000	80,000
TMCC	219,000	227,000	228,000	206,000	204,000	226,000
WNC	86,000	78,000	87,000	82,000	90,000	91,000
3-Year Average						
UNLV			1,095,000	1,122,000	1,141,000	1,155,000
UNR			773,000	777,000	774,000	765,000
NSU			141,000	156,000	168,000	174,000
CSN			644,000	632,000	606,000	579,000
GBC			83,000	87,000	86,000	84,000
TMCC			225,000	220,000	213,000	212,000
WNC			84,000	82,000	86,000	88,000

Incentivizing Improved Outcomes Through OBF

- Only a handful of states fund OBF just with new money (non-recurring).
- Only a handful of states use a target or "earn back" approach like Nevada.
    - Most use Share of Outcomes or Relative Growth methods for allocating OBF funds.

Principle	Nevada	Nationally
Base/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

HCM OBF Typology - Comparison States

- Of the comparison states we reviewed, only one uses New Funding, and only one uses Institution-Specific Pools to allocate the funds.

	Formula Type	Funding Level	Base/ Recurring or New Funding	Institutional Allocation Method
NV	Type III	Moderate (20%)	Base/Recurring	Institution-Specific Pool
OK	Type I	Low (2%)	New Funding	Relative Growth
OR - 2 yr	Type IV	Moderate (5%)	Base/Recurring	Share of Outcomes
OR - 4 yr	Type III	High (50%)	Base/Recurring	Share of Outcomes
LA	Type IV	High (28%)	Base/Recurring	Share of Outcomes
MT	Type III	Moderate (8%)	Base/Recurring	Institution-Specific Pool
NM	Type III	Moderate (5%)	Base/Recurring	Share of Outcomes
CO	Type II	High (92%)	Base/Recurring	Relative Growth
AR	Type IV	High (100%)	Base/Recurring	Relative Growth

Example of the Share of Outcomes Allocation of OBF Funding

Institution	FY24 Performance Pool Funding	Share of FY24 Performance Pool	2022-2023 Weighted Points	Share of Weighted Points	FY25 OBF Allocation
UNLV	$39,707,426	37.9%	2,861.3	21.6%	$22,628,268
UNR	$26,398,900	25.2%	2,384.5	18.0%	$18,857,820
NSU	$19,491,302	18.6%	876.5	6.6%	$6,931,592
CSN	$2,930,515	2.8%	4,238.4	32.0%	$33,519,373
GBC	$6,939,008	6.6%	545.6	4.1%	$4,315,181
TMCC	$3,156,674	3.0%	1,660.5	12.5%	$13,131,897
WNC	$6,049,318	5.8%	668.8	5.1%	$5,289,011
Total	**$104,673,143**	100.0%	13,235.6	100.0%	**$104,673,143**

- The share of weighted points is vastly different from the current share of the performance pool funding.
- This is partly because the metrics and weights are not means to be comparable across sectors.

Volatility of WSCH vs Performance Over Time

If Nevada had used a Relative Growth OBF model instead of the performance pool for a continuous four-year period, there would have been minor changes in total FY 2025 funding levels.

	Actual FY25	Using Relative Growth for FY22-FY25	Change
UNLV	$203,911,119	$204,681,660	0.4%
UNR	$138,154,676	$137,180,052	-0.7%
NSU	$30,696,028	$30,628,763	-0.2%
CSN	$97,888,483	$97,117,967	-0.8%
GBC	$14,715,080	$14,609,118	-0.7%
TMCC	$35,402,848	$36,631,890	3.5%
WNC	$15,851,936	$15,770,720	-0.5%

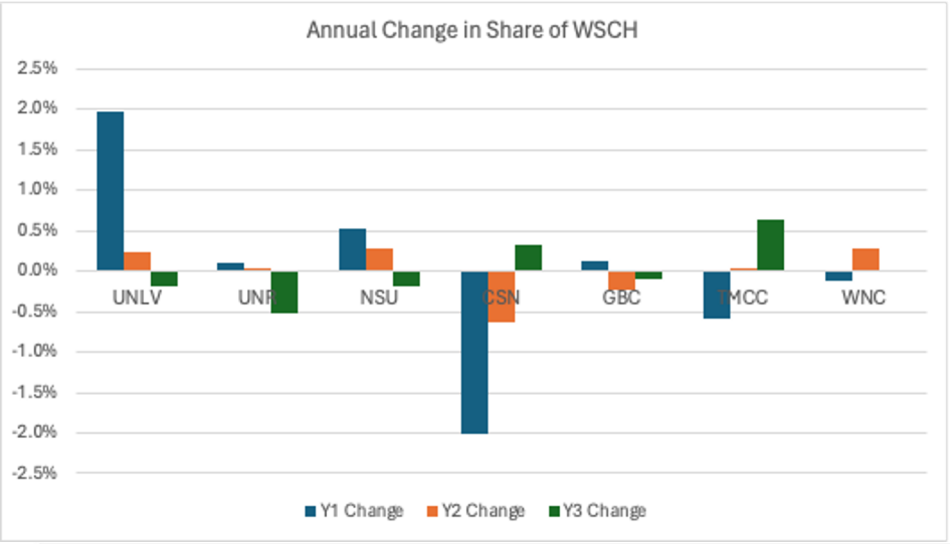
There are two noticeable impacts:

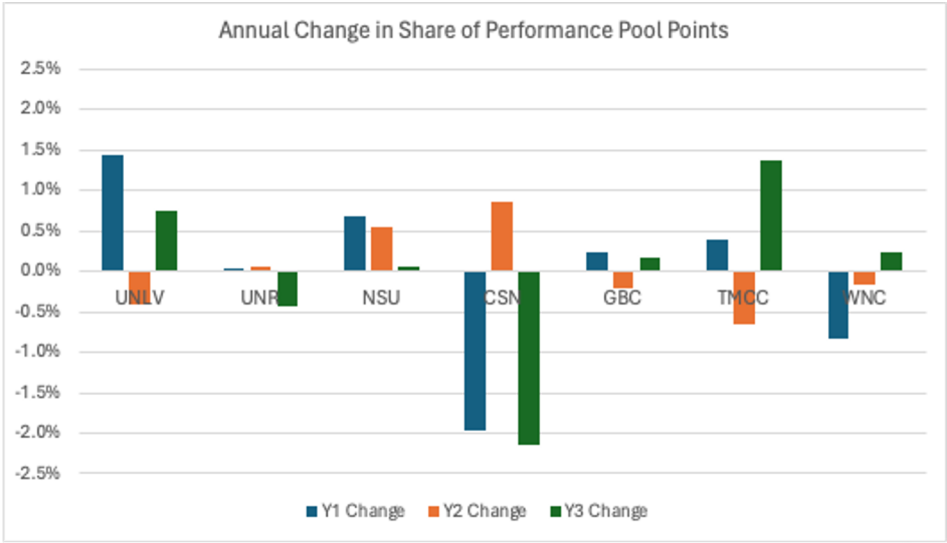
1) In most cases, it smooths out (slightly) the large changes at the new biennium.

1) Institutions with strong performance the year after a WSCH year-of-measure aren't getting full recognition for that performance in the current model if their WSCH was low the year before.

Volatility of WSCH vs Performance

- Institutions' share of total performance points has slightly more volatility from year to year than WSCH.
- The majority of the time, the annual variation in both is <0.5%.
- The change in share has exceeded 1% four times for performance, twice for WSCHs.

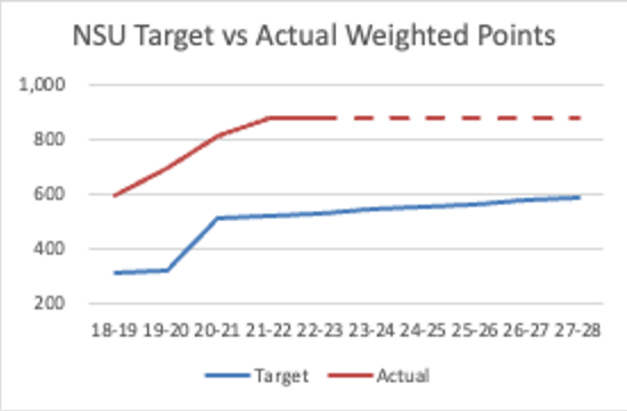


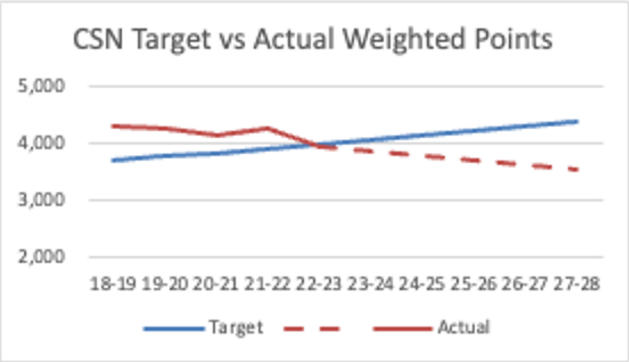


Rebaselining

Alternative: Maintain Performance Pool structure, but set targets at reasonable but ambitious levels of improvement based on current conditions.

- Expects ongoing improvement from institutions that are comfortably above their current targets.
    - Most institutions could maintain flat performance and not fall below their target for 4-6 years.
- Prevents a situation where declines in enrollment could make it nearly impossible for an institution to reach ever-increasing targets.
- Maintains the robust current level of funding based on performance under any appropriations level.





Rebaselining

Options:

1. Require a 2% increase from the *prior year's actual* for all institutions, but only a 1% increase if the recent trend has been negative.
2. Project institution-specific target increases based on recent performance trend ("line of best fit")

Rebaselining

	22-23 Weighted Points	Change in Weighted Points		Option 1- Target Increase	Option 1 23-24 Target	Actual 23-24 Target
		3-year average	Prior year			
UNLV	2,937	3.73%	2.63%	2%	2,996	2,977
UNR	2,309	0.20%	-3.19%	1%	2,332	2,457
NSU	876	8.31%	-0.02%	1%	885	903
CSN	3,925	-2.55%	-7.40%	1%	3,964	4,366
GBC	565	2.62%	3.56%	2%	576	568
TMCC	1,826	3.79%	9.99%	2%	1,863	1,728
WNC	695	-3.46%	3.88%	2%	709	689

Rebaselining - Option 1 Historical Effect

- Had Option 1 been in effect since 2016-2017, institutions would have fallen short of their target more often. In 12 of 16 instances, the institutions met their target the following year.

Percent of Performance Pool Target Met

	16-17	17-18	18-19	19-20	20-21	21-22	22-23
UNLV	101.9%	101.9%	99.6%	101.4%	109.0%	96.4%	100.6%
UNR	102.4%	105.7%	101.4%	99.6%	102.1%	98.6%	95.9%
NSU	101.2%	135.6%	106.9%	113.7%	114.6%	106.0%	99.0%
CSN	100.8%	100.4%	102.5%	98.1%	96.8%	101.0%	91.7%
GBC	97.2%	101.5%	99.9%	99.4%	107.8%	93.4%	101.5%
TMCC	97.9%	100.8%	98.4%	102.1%	105.0%	93.4%	107.8%
WNC	98.2%	101.2%	101.8%	117.2%	88.7%	95.2%	102.9%

Thank You!

Contact:

martha_snyder@hcmstrategists.com

william_carroll@hcmstrategists.com

HCM STRATEGISTS