

# ad hoc Committee on Higher Education Funding Work Session

July 25, 2024

This work session is conducted in alignment with the charge of the Chancellor’s ad hoc Committee on Higher Education Funding, requiring the Committee to determine whether other funding allocation methods would be appropriate for NSHE and to make recommendations accordingly. Through its deliberations, the Committee may (or may not) adopt the recommendations as written herein or amend them so long as the revisions are related to the original recommendation. A compilation of the adopted recommendations will be included in the final report of the Committee, which will be presented to the Chancellor for transmission to the Board of Regents, Governor, and State Legislature by August 31, 2024.

This document is intended to guide the Committee through its deliberations on the matters related to the NSHE funding formula allocation methodology, including but not limited to:

1. A funding adequacy and equity study,
2. The small institution factor (SIF),
3. A student attributes-based enrollment allocation component,
4. Further review of the expansion of summer school funding,
5. A 3-year weighted average for the weighted student credit hour (WSCH),
6. A progression and outcomes allocation component,
7. A “Balanced Approach” to the allocation,
8. A phase-in approach to changes to the funding formula allocation methodology, and
9. Future reviews of the NSHE funding formula.

The recommendations presented herein are noted in **bold** font and additional information, including background information, cost and/or formula distribution impacts are noted in regular font.

## *Recommendations for Committee Consideration*

1. Funding Adequacy and Equity Study. Committee members and stakeholders that participated in the study of the NSHE funding formula expressed concern that Nevada’s postsecondary institutions are underfunded, resulting in inadequate and sometimes inequitable funding that has not kept pace with the needs of students or institutions. Further, Committee members expressed the need for a study to be undertaken to determine adequate and equitable funding levels for NSHE to validate the equity of the formula revisions adopted by the Committee and to further inform and improve the state’s funding formula for higher education. This recommendation is intended to demonstrate an on-going commitment to establish and maintain adequate and equitable funding for NSHE institutions.

### Recommendation for Consideration:

- 1a. Funding Adequacy and Equity Study. Urge the Chancellor’s Office to pursue a study of funding adequacy and equity as soon as practical so that the study may be**

completed no later than June 30, 2025, when the authorization for expending funds appropriated under [Assembly Bill 493](#) expires.

Cost Estimate: A recent funding adequacy and equity study undertaken by HCM Strategists in the state of Illinois took approximately two and one-half years and over \$700,000 to complete. A study of a much narrower scope was also done by HCM Strategists in the state of Texas and took approximately one year and \$250,000 to complete. While this is by no means a cost estimate for NSHE, it is an indication that the scope of the study will dictate both cost and timeline.

2. **Small Institution Factor.** The SIF and the research Operations and Maintenance (O&M) funding are subtracted from the General Fund appropriation before the formula allocation methodology is applied. The SIF is considered a “core cost” that provides support for the basic operations of Great Basin College (GBC) and Western Nevada College (WNC), the smallest of the NSHE institutions. The current SIF is \$30 per WSCH for the gap between the institution’s WSCH and 100,000 WSCH. Once the total WSCH for the small institution reaches 100,000, the small institution is no longer eligible for the funding provided under the SIF calculation. The \$30 per WSCH amount has not been increased since the formula’s inception in 2013. In addition, at its inception, the total SIF amount was not to exceed \$1.5 million for each institution.

Recommendations for Consideration:

**2a. SIF Inflationary Adjustment. Increase the SIF from \$30 to \$40 per WSCH and continue to adjust for inflation in future years using the Higher Education Price Index (HEPI).**

Cost/Distribution Impact

	SIF-Eligible WSCH (2021-22)	FY2025 SIF Actual at \$30/WSCH	FY2025 SIF at \$40/WSCH	Increase
GBC	18,386	\$551,580	\$735,440	\$183,860
WNC	10,466	\$313,980	\$418,640	\$104,660
Total		\$865,560	\$1,154,080	\$288,520

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation.

% Change for State Formula Allocation by Institution Increase SIF to \$40 per WSCH			
Institution	% Change	Institution	% Change
UNLV	-0.1%	CSN	-0.1%
UNR	-0.1%	GBC	1.2%
NSU	-0.1%	TMCC	-0.1%
		WNC	0.6%

**2b. Increase SIF Cap to 125,000 WSCH. Increase the WSCH cap from 100,000 WSCH to 125,000 WSCH.**

Currently, GBC and WNC will receive SIF until the institution generates 100,000 WSCH. For example, if the institution’s year of measure WSCH is 90,000 WSCH, the SIF-eligible WSCH is 10,000 WSCH (100,000 minus 90,000). Increasing the cap from 100,000 to 125,000 WSCH would increase the SIF-eligible WSCH in this example to 35,000 WSCH (125,000 minus 90,000).

Cost/Distribution Impact

% Change for State Formula Allocation by Institution Increase SIF Cap to 125,000 WSCH			
Institution	% Change	Institution	% Change
UNLV	-0.3%	CSN	-0.3%
UNR	-0.3%	GBC	4.8%
NSU	-0.3%	TMCC	-0.3%
		WNC	4.5%

**2c. Increase SIF Cap to 150,000 WSCH. Increase the WSCH cap from 100,000 WSCH to 150,000 WSCH.**

Currently, GBC and WNC will receive SIF until the institution generates 100,000 WSCH. For example, if the institution’s year of measure WSCH is 90,000 WSCH, the SIF-eligible WSCH is 10,000 WSCH (100,000 minus 90,000). Increasing the cap from 100,000 to 150,000 WSCH would increase the SIF-eligible WSCH in this example to 60,000 WSCH (150,000 minus 90,000).

Cost/Distribution Impact

% Change for State Formula Allocation by Institution Increase SIF Cap to 150,000 WSCH			
Institution	% Change	Institution	% Change
UNLV	-0.5%	CSN	-0.6%
UNR	-0.5%	GBC	9.6%
NSU	-0.6%	TMCC	-0.6%
		WNC	8.9%

**2d. Further Review of SIF. Urge the Chancellor’s Office to review the SIF calculation using headcount, rather than WSCH, and determine if an alternative calculation based on headcount should be utilized.**

During the Committee’s May 30, 2024, meeting, members directed staff to include a headcount calculation for the SIF. Changing the SIF calculation will require establishing a price per headcount and threshold level for the purpose of the calculation. Given this will result in significant changes with no prior discussion by the Committee to indicate an appropriate threshold level, it is recommended that this matter be studied to determine the efficacy of such a revision.

3. Student Characteristics. The “Balanced Approach” recommended by HCM Strategists requires that a portion of the General Fund appropriation be allocated based on certain student characteristics (see recommendation 3a.). Additional student characteristics may be considered; however, inclusion is dependent upon the availability of data collected at the System-level (see recommendation 3b. and 3c.).

Recommendations for Consideration:

**3a. Use Student Attributes as a Component in Funding Allocation Methodology.**

**Allocate a portion of the General Fund appropriation based on the following student characteristics: 1) total student term headcount enrollments and credit hours (including non-resident students), 2) under-represented minority student headcount enrollments and credit hours, and 3) Pell eligible student headcount enrollments and credit hours.**

The aforementioned student characteristics are recommended as a best practice and the data are readily available at the System-level for all teaching institutions. The inclusion of headcount in this component accounts for the enrollment of part-time students.

Half of the funding provided by this component would be allocated based on each institution’s share of headcount and half would be based on each institution’s share of credit hours. Underrepresented minority students and Pell recipients would be weighted equal to one. Based on this methodology, a single student could be counted up to three times – once in the total student headcount and credit hours, once in the under-represented minority student headcount and credit hours (if applicable), and once in the Pell eligible headcount and credit hours (if applicable).

Cost/Distribution Impact:

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation. This example uses the student-based formula to allocate 40% of the funds after the SIF and Research O&M, with the remaining 60% being allocated based on WSCH.

% Change for State Formula Allocation by Institution Student Characteristics (40%)			
Institution	% Change	Institution	% Change
UNLV	-5.0%	CSN	21.5%
UNR	-9.6%	GBC	1.4%
NSU	4.3%	TMCC	5.8%
		WNC	-3.3%

**3b. Academic Preparation. Urge the Chancellor’s Office to begin efforts to determine the data elements appropriate to identify students who are not prepared for the rigors of college-level coursework to be used as an attribute in the student-based component of the funding allocation methodology. The determination of such data**

**elements should be done in consultation with campus-level Institutional Research Offices to ensure the consistent availability of data or the consistent collection of such data elements going forward. It is recommended that this effort commence in sufficient time that such data can be available for use in the formula allocation for FY2028 and FY2029 (or the 2027 Session).**

Currently, there are data elements available to measure academic preparation, including but not limited to, high school grade point average, ACT/SAT scores, and enrollment in corequisite courses. It is recommended that this data element be further vetted through Institutional Research Offices to ensure the consistent availability of data across all institutions.

**3c. Students in Poverty. Urge the Chancellor's Office to begin efforts to determine the data elements appropriate to identify students who are in poverty to be used as an attribute in the student-based component of the funding allocation methodology. The determination of such data elements should be done in consultation with campus-level Institutional Research Offices to ensure the consistent availability of data or the consistent collection of such data elements going forward. It is recommended that this effort commence in sufficient time that such data can be available for use in the formula allocation for FY2028 and FY2029 (or the 2027 Session).**

Currently, Pell status is a proxy for low-income students; however, Pell eligibility is contingent on a student's completion of the Free Application for Federal Student Aid (FAFSA). Further, Pell eligibility is based on a number of factors in addition to income level (e.g., family size, expenses, etc.). There are other measures of poverty, including income level, that are not consistently collected for all students. As such, it is recommended that a data element be identified for this purpose, should the Committee feel that Pell status alone is insufficient in the long-term.

4. Summer School Student Credit Hours. Currently, summer school courses, other than nursing programs, science-based prerequisites for nursing, and teacher education, have not been eligible for state General Fund support. As a result of the state's limited support for summer school, institutions often limit summer course offerings. Further, student fee revenue generated through summer for courses that are not state supported are included in self-supporting budget accounts, allowing for flexibility in the expenditure of such revenue by each institution. HCM Strategists indicated that Nevada is the only state they are aware of that does not include summer school credits in a formula allocation.

Recommendation for Consideration:

**4a. Further Review of Summer School Student Credit Hours. Urge the Chancellor's Office to review the budgetary and administrative implications of further expansion of state support for summer school course offerings, beyond nursing and teacher education.**

Such a review may include 1) determining the impact of summer school enrollment on student completions, 2) the financial ramifications of shifting summer school student fee

revenue from self-supporting accounts to the state supported operating budgets, and 3) the administrative concerns related to increasing summer school offerings when many faculty are on 9-month employment contracts and not currently contracted to work during the summer term.

5. 3-Year Average for Weighted Student Credit Hours. Currently, the “year of measure” used in biennial formula calculations is the most recent year for which data is available. For example, formula calculations for FY2024 and FY2025 allocations were based on academic year 2021-22 student credit hours because it was the most recent completed academic year for which data were available. Institutions have expressed concern that every other year count and the resulting lag time for the formula creates a disconnect between costs and resources.

Recommendations for Consideration:

**5a. 3-Year Average of WSCH. Base the WSCH count for each year of measure on a 3-year average. Use the same caseload growth process the second year of the biennium, also based on the 3-year average figures.**

While most states use a 3-year average, some states utilize the prior year (similar to NSHE) and a few states use the greater of the two. Using a 3-year average for the calculation of WSCH is recommended by HCM Strategists as it creates greater revenue stability. A 3-year average smooths out aberrations; however, it also means resources can lag behind an enrollment trend. Institutions with declining enrollment will have a buffer against declining tuition revenue using a 3-year average; conversely, institutions with increasing enrollment will find that state funding does not keep up with costs as quickly, although growing enrollments will result in increasing tuition revenue.

Cost/Distribution Impact:

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation.

% Change for State Formula Allocation by Institution 3-Year Average for WSCH			
Institution	% Change	Institution	% Change
UNLV	-2.0%	CSN	5.9%
UNR	-0.2%	GBC	4.1%
NSU	-6.1%	TMCC	2.6%
		WNC	-5.0%

**5b. Greater of 3-Year Average or Prior Year. Base each institution’s WSCH count for each year of measure on a 3-year average or the prior year, whichever is greater. Use the same caseload growth process for the second year of the biennium, also using the same WSCH methodology as the first fiscal year of the biennium.**

Creating two options for the WSCH count for each year of measure is responsive to the individual experiences of each institution. The three-year WSCH average benefits institutions experiencing declining enrollment, because reductions in funding would be more gradual. The prior year WSCH option benefits institutions experiencing increasing enrollment, because funding would be reflective on increases in enrollment.

Cost/Distribution Impact:

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation.

% Change for State Formula Allocation by Institution Greater of 3-Year Avg or Prior Year for WSCH			
Institution	% Change	Institution	% Change
UNLV	-2.0%	CSN	5.2%
UNR	-0.8%	GBC	3.5%
NSU	-2.1%	TMCC	2.0%
		WNC	-2.1%

**5c. Weight Most Recent Year in 3-Year Average Calculation. Base the WSCH count for each year of measure using a 3-year average and weight the most recent year higher.**

The prior year’s WSCH total would be weighted at 50 percent, while the two preceding years’ WSCH totals would be weighted at 25 percent each. This option would be responsive to recent changes, while also maintaining the benefit of averaging.

Cost/Distribution Impact:

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation.

% Change for State Formula Allocation by Institution Weighted 3-Year Avg for WSCH			
Institution	% Change	Institution	% Change
UNLV	-1.5%	CSN	4.4%
UNR	-0.2%	GBC	3.1%
NSU	-4.6%	TMCC	2.0%
		WNC	-3.8%

6. Eliminate the Performance Pool and Replace it with an Outcomes-Based Funding Component. The NSHE Performance Pool is based on a 20 percent carve-out from each institution’s base funding and can be proportionally earned back depending on the institution’s performance in the prior year. The limitation of performance funds coming from the base distribution resulted in the setting of arbitrary points targets to ensure that institutions achieved a level of performance that would avoid the loss of significant funding.

Recommendation for Consideration:

**6a. Outcomes-Based Funding Component. Eliminate the current NSHE Performance Pool and replace it with an Outcomes-Based Funding (OBF) component in the funding allocation methodology, allocating the funds based on a relative growth calculation.**

As part of the “Balanced Approach” framework for allocating General Fund appropriations, HCM Strategists recommends funding progression and outcomes through a separate outcomes-based component. The recommended OBF component would be based on relative growth, whereby institutions would receive a portion of the available funding based on their annual improvement on their own currently established metrics relative to that of the other institutions. This recommended best practice incentivizes continuous improvement and eliminates the earning back of funding, which has been identified as problematic by stakeholders. Further, this approach eliminates arbitrary targets, set to ensure that institutions can achieve the targets and avoid a loss in funding. This recommendation can be implemented without causing large swings in funding in the first year and supports mission differentiation.

Cost/Distribution Impact:

This recommendation, as presented, is cost neutral to implement. The table below presents the percent change in the state formula allocation by institution using the FY2025 Total General Fund allocation. This example uses the OBF to allocate 20% of the funds after the SIF and Research O&M, with the remaining 80% being allocated based on WSCH.

% Change for State Formula Allocation by Institution Outcomes-Based Funding (20%)			
Institution	% Change	Institution	% Change
UNLV	0.6%	CSN	-1.4%
UNR	-0.5%	GBC	0.7%
NSU	0.1%	TMCC	2.1%
		WNC	0.8%

7. Percent Options for the “Balanced Approach”. Currently, the primary driver for the allocation of state support for teaching institutions is WSCH – whereby student credit hours are weighted by the cost of program and course level. A “Balanced Approach” expands the drivers used for the allocation of funding and includes student attributes, weighted enrollments, and outcomes-based funding. The “Balanced Approach” is a recommended best practice that considers institution type and mission differentiation.

Recommendations for Consideration

The recommendations presented below are based on the Committee’s direction provided during its May 30, 2024, meeting. The Committee will be able to consider additional component percentage combinations during the work session. Additionally, the options presented below do not assume any revisions to the SIF or WSCH calculations.



During the July Work Session, HCM Strategists will update the formula calculations based on the recommendations adopted by the Committee using a live model. This live model will be updated for the purpose of Committee deliberations.

**7a. 40%-40%-20% Component Mix. After SIF and research O&M are subtracted from the total General Fund appropriation, allocate the remaining General Fund appropriation as follows: 40% based on course weighted enrollments (WSCH); 40% based on student characteristics (described in recommendation 3a.); and 20% based on progression and outcomes (referred to as outcomes-based funding or OBF and described in recommendation 6a.).**

Cost/Distribution Impacts:

% Change for State Formula Allocation by Institution 40%-40%-20%			
Institution	% Change	Institution	% Change
UNLV	-4.4%	CSN	20.0%
UNR	-10.1%	GBC	2.1%
NSU	4.4%	TMCC	7.8%
		WNC	-2.5%

**7b. 45%-45%-10% Component Mix. After SIF and research O&M are subtracted from the total General Fund appropriation, allocate the remaining General Fund appropriation as follows: 45% based on course weighted enrollments (WSCH); 45% based on student characteristics (described in recommendation 3a.); and 10% based on progression and outcomes (referred to as outcomes-based funding or OBF and described in recommendation 6a.).**

This recommendation is brought forward at the Committee’s request to reduce the OBF portion to 10%.

Cost/Distribution Impacts:

% Change for State Formula Allocation by Institution 45%-45%-10%			
Institution	% Change	Institution	% Change
UNLV	-5.3%	CSN	23.4%
UNR	-11.0%	GBC	1.9%
NSU	4.9%	TMCC	7.5%
		WNC	-3.3%

**7c. 40%-50%-10% Component Mix. After research O&M and SIF are subtracted from the total General Fund appropriation, allocate the remaining General Fund appropriation as follows: 40% based on course weighted enrollments (WSCH); 50% based on student characteristics (described in recommendation 3a.); and 10% based on progression and outcomes (referred to as outcomes-based funding or OBF and described in recommendation 6a.).**

This recommendation is brought forward at the Committee’s request to increase the student characteristics component to 50%.

Cost/Distribution Impacts:

% Change for State Formula Allocation by Institution 40%-50%-10%			
Institution	% Change	Institution	% Change
UNLV	-5.9%	CSN	26.1%
UNR	-12.2%	GBC	2.1%
NSU	5.4%	TMCC	8.2%
		WNC	-3.7%

**7d. 60%-20%-20% Component Mix. After research O&M and SIF are subtracted from the total General Fund appropriation, allocate the remaining General Fund appropriation as follows: 60% based on course weighted enrollments (WSCH); 20% based on student characteristics (described in recommendation 2a.); and 20% based on progression and outcomes (referred to as outcomes-based funding or OBF and described in recommendation 6a.).**

This recommendation is brought forward at the Committee’s request to decrease the student characteristics component to 20%.

Cost/Distribution Impacts:

% Change for State Formula Allocation by Institution 60%-20%-20%			
Institution	% Change	Institution	% Change
UNLV	-1.9%	CSN	9.3%
UNR	-5.3%	GBC	1.4%
NSU	2.2%	TMCC	5.0%
		WNC	-0.8%

8. Phase-In the New Funding Allocation Methodology. According to HCM Strategists, it is a best practice, when revising formula allocations, to phase in implementation in order to allow institutions a reasonable opportunity to adapt to funding reductions caused by any adopted funding formula revisions. Implementation can be phased in through stop-loss or hold harmless provisions that will effectively reduce the impact to institutions when funding allocations are reduced due to methodology changes. For example, a stop-loss provision could state that no institution will receive a reduction in state funding greater than 3% compared to the prior year. An institution that faces a reduction larger than 3% in the initial run of the formula would be brought up to the 3% level by proportionally reducing the allocations to other institutions. Alternatively, implementation could be phased in by gradually shifting from the current 100%-0%-0% component mix to the desired final mix (e.g., 40%-40%-20%).

When the current funding formula allocation methodology was adopted in 2013, the System sought and ultimately received hold harmless funding to mitigate the impacts of formula implementation.

Recommendation for Consideration:

**8a. Implementation Strategy. Urge the Chancellor to consult with the Presidents to determine the phase-in approach that best supports the System and its institutions when implementing the funding formula distribution changes.**

HCM Strategists offered the following options that may be considered by the System when implementing the funding formula revisions including: 1) phase-in the new model over a defined period of time (e.g., fully implemented by the third biennium), 2) utilize a stop-loss provision establishing that no institution will lose more than X% in any given year of implementation, 3) fund a hold harmless or mitigation provision (which was initially estimated to total \$24.1 million based on the following placeholder policies: \$40 SIF, a 3-year average for WSCH, and a 40%-40%-20% balanced framework).

9. Regularly Review the Funding Formula Methodology. Regular formula reviews are a best practice to ensure formula allocations are equitable and continue to be strategic in their utilization.

Recommendation for Consideration:

**9a. Review Committee. Urge the Chancellor's Office to create a formula review committee that convenes every two biennia to evaluate and propose any necessary changes to the funding formula allocation methodology.**

The Chancellor's Office may wish to establish a review committee in consultation with the Governor and State Legislature. Ideally, such efforts should include a review committee made up of subject matter experts and stakeholders. Additionally, the Committee may wish to consider the alternative frequency suggested by HCM Strategists of every five years (instead of every two biennia).