Agenda

1. HCM Introduction
2. Supporting Nevada’s Formula Review
3. National Perspective: State Funding Formula + Trends
4. Funding Formula Development Review Process
We are HCM Strategists

Get to know your new strategic partner
About HCM

We are a woman-owned, impact-driven consulting firm with a 15-year track record of influence and innovation in education.

We exist to champion accessible, affordable, equitable, and student-centered education and work-based learning across all 50 states.

We believe in the transformative power of postsecondary education and career-competitive, lifelong learning to create opportunities for individuals to thrive while eliminating systemic inequities that make institutions more effective, accountable and impactful.

“As innovation in the field continues to grow, HCM Strategists plays a leading role in ensuring the access to and impacts of those innovations are equitable.”

– Martha Snyder, Partner
Our Approach

We work at the intersection of public policy, systems change, institutional strategy, strategic finance, and career-connected learning.

In our 15-year history, three pillars of our approach have enabled HCM Strategists to develop a national reputation and have a significant impact on life-changing public policy. Those have been our investments in deep content expertise, a national network of relationships, and an expectation for quality and rigor.

We apply this approach in everything we do.
We bring 15+ Years of State Impact & Proven Results in Change Management

HCM has worked in 43 states and our team is currently working within 14 states facilitating consultive change processes with higher education stakeholders.
Our Strategic Finance and Strategic Planning Expertise Spans Numerous Systems, States & Organizations
Supporting Nevada’s Formula Review

HCM Project Team + Scope of Work + State Funding Formula Overview
Your HCM Project Team

Martha Snyder  
Partner  
- Project lead  
- Content oversight and point of contact for NSHE.

Will Carroll  
Director of Policy & Strategic Finance  
- Lead content and policy specialist  
- Formula analysis and modeling

Nate Johnson  
Senior Affiliate  
- Advice and counsel  
- Lead for evaluation and self-supporting accounts

Katie Lynne Morton  
Director of Project Management & Client Relations  
- Project Manager

Brenae Smith  
Associate Director  
- Content support  
- Research and overall project support
Scope of Work

1. Evaluating Other Funding Models
2. Assessment of Nevada’s Current Funding Formula

Presentation and Summary of Findings and Recommendations to the Committee
# Activities Supporting Scope

| 1. Evaluating Other Funding Models | Review of common higher education finance structures  
| | Trends + assessment of best practices  
| | Matrix comparing Nevada with comparison/leading states  

| 2. Assessment of Nevada’s Current Funding Formula | Review of funding model history/resource documents  
| | Funding trends and impacts  
| | Stakeholder interviews  

| 3. Evaluation of Practices & Protocols for Self-Supporting Accounts | Matrix of main policy-relevant characteristics of each revenue and expense  
| | Analysis of other states’ reporting and policy requirements for the categories |
State Funding Formula Overview
## Types of State Funding Allocation Models

<table>
<thead>
<tr>
<th>Funding Approach</th>
<th>Description</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base +</td>
<td>Allocation based on prior levels of funding Adjusted based on estimated costs, institutional priorities or across the board</td>
<td>Institutional fiscal stability</td>
<td>Inequities in institutional funding often disadvantage institutions serving high # of low-income and students of color Not responsive to changes in enrollment/other changing conditions or state priorities</td>
</tr>
<tr>
<td>Enrollment</td>
<td># of students enrolled (FTE most common) Often limited to in-state students</td>
<td>Directs resources to where the students are</td>
<td>Shifts in enrollment limit stability Limits incentive for student success/timely completion (particularly when combined with tuition) FTE funding disadvantages institutions with large part-time populations</td>
</tr>
</tbody>
</table>
# Types of State Funding Allocation Models

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<tbody>
<tr>
<td>Weighted Enrollment</td>
<td>Provides additional weights for enrolling students with certain characteristics (e.g., low-income, underrepresented minority) or enrolled in certain programs, disciplines, or levels (CTE, health, graduate).</td>
<td>Creates incentives to enroll priority populations, and provides the additional resources needed to help them succeed. Weights for certain courses accounts for programs that historically have cost more to deliver.</td>
<td>Similar to pure enrollment-driven formula: Creates fiscal challenges for schools with sudden enrollment drops. Does not incent colleges to help students persist and complete.</td>
</tr>
<tr>
<td>Outcomes-Based Funding</td>
<td>Allocation is based on a school's performance on a set of metrics. States use a variety of different formulas to determine the allocation, including a school's proportion of total outcomes, achievement of individual school targets, and relative growth.</td>
<td>OBF aligns state investment with state priorities. Creates incentive for institutions to focus on student success. First type of funding models to consider student characteristics.</td>
<td>If not adjusted/weighted for different student needs, OBF can create incentives for colleges to reduce access for students who are less likely to succeed. Institutions also need an adequate level of funding in order to achieve success on the metrics, which not all may have.</td>
</tr>
</tbody>
</table>
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.
# Examples of State Combinations

<table>
<thead>
<tr>
<th>State</th>
<th>Base +</th>
<th>Enrollment</th>
<th>Weighted Enrollment - Cost</th>
<th>Weighted Enrollment - Student</th>
<th>OBF</th>
<th>OBF Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LA Both sectors</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️ (Student credit hour + discipline weights)</td>
<td>✔️ (Applied to institutions with higher than average URM enrollment)</td>
<td>✔️</td>
<td>✔️ (adult, Pell, URM)</td>
</tr>
<tr>
<td><strong>TX 2-year</strong></td>
<td>✔️</td>
<td>✔️</td>
<td>✔️ (contact hours weighted by discipline)</td>
<td>✔️ (Pell, academic unprepared, adult)</td>
<td>✔️</td>
<td>✔️ (dual credit, transfer, credentials, high-demand premium)</td>
</tr>
</tbody>
</table>
# Examples of State Allocation Formula Combinations

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<tr>
<th>State</th>
<th>Base +</th>
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<th>Weighted Enrollment - Cost</th>
<th>Weighted Enrollment - Student</th>
<th>OBF</th>
<th>OBF Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>MN</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Both Sectors</td>
<td></td>
<td>(FTE + Headcount)</td>
<td></td>
<td></td>
<td>(Pell + First Generation)</td>
<td>(Persistence + Completion)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NV</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Both sectors</td>
<td></td>
<td>(Completed credit hours weighted by discipline + level)</td>
<td></td>
<td></td>
<td>(degrees, research, transfer, efficiency, high-demand areas)</td>
<td>(Underrepresented Minorities, Pell completions)</td>
</tr>
</tbody>
</table>
Recent Trends in State Funding Formulas

**ADEQUACY**
Determining the basic level of resources required to achieve the outcomes desired.

**WORKFORCE**
Increased focus on value. Enrollment components prioritizing enrollment in courses/programs with workforce demand or value. OBF components prioritizing completion of credentials of value.

**EQUITY**
Recognizing current gaps in outcomes and different cost required to achieve the desired outcomes by population or program, and accounting for those difference in allocating resources.

**INTERPLAY BETWEEN EQUITY AND ADEQUACY**
Need to provide sufficient resources in exchange for accountability for outcomes. Illinois and Texas provide examples of these approaches.
Closer Look at Outcomes-Based Funding

National Context
Outcomes-Based Funding (OBF) in the Broader Context

- OBF is a common component of state funding for postsecondary education.
- Aligns operating funds with state goals.
- States have incorporated and developed OBF in response to different circumstances.

<table>
<thead>
<tr>
<th>Overall attainment</th>
<th>Student success measures</th>
<th>Target populations</th>
</tr>
</thead>
</table>
Outcomes-based Funding in States: FY 2020
OBF Typology

- State funding systems vary significantly in design, focus and sophistication.
- HCM Strategists has developed a typology for Outcomes-Based Funding ranging from Type I (Rudimentary) to Type IV (Advanced).

Type IV

- Aligned with completion/attainment goals and related priorities
- Recurring/Base funding
- High level of state funding (25% or greater)
- Differentiates by institutional mission
- Total degree/credential completion included
- Outcomes for underrepresented students prioritized
- Formula driven/incents continuous improvement
- Sustained for two or more consecutive fiscal years
Outcomes-based Funding by Type, FY 2020: 4-year Sector
Outcomes-based Funding by Type, FY 2020: 2-year Sector
FY 2020: Funding by Common Metrics

Course Completion, Efficiency, Progression & Degree Completion, Mission, and Other
Common OBF Metrics: Most Aligned with Attainment & Equity

- Degrees/Certificates
- Workforce
- Progression
- Efficiency
- Transfer
- Priority Funding
  - Underrepresented students
  - High-demand degrees
## Comparison of OBF Metrics (Selected States)

<table>
<thead>
<tr>
<th></th>
<th>Progression</th>
<th>Completion</th>
<th>Transfer</th>
<th>Workforce</th>
<th>Efficiency</th>
<th>High Demand Field</th>
<th>Research/ Public Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kentucky</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Louisiana</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Ohio</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tennessee</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Nevada</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Gateway Course Completion)</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
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Priority Populations: To Promote Equity in Access & Success

**MOST COMMON**
- Low Income Students
- Underrepresented Minority Students
- Academically Unprepared Students
- Adult Students

**OTHER**
- Veterans
- First-Generation Students
- Rural Students
## Comparison of OBF Metrics (Selected States)

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<tr>
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<th>Low-Income</th>
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<td></td>
<td></td>
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OBF in Context of Other Funding

• Higher education is complicated business with many different stakeholders and financial drivers or incentives
• States have somewhat comparable demands for higher education (instruction, research, public service)
• But they differ more in how they meet them (public, private, 4-year, 2-year, many small institutions, a few large ones, specialized, comprehensive)
• Context is important both for core funding (outcomes) and for determining role relative to other funds (self-sustaining accounts)
Funding Formula Development Review Process
Revenue Mix US and Nevada FY 2022

**United States**
- Tuition and fees: $183B (25%)
- Federal: $118B (16%)
- State: $104B (14%)
- Local: $20B (3%)
- Private gifts/grants: $61B (8%)
- Independent operations: $10B (1%)
- Sales & services educational activities: $26B (4%)
- Hospitals: $112B (15%)
- Other: $47B (7%)

**Nevada**
- Tuition and fees: $784M (30%)
- Federal: $617M (24%)
- State: $684M (27%)
- Local: $4M (0%)
- Private gifts/grants: $87M (3%)
- Sales & services educational activities: $181M (7%)
- Auxiliaries: $82M (3%)
- Other: $142M (6%)
- Independent operations: $0M (0%)
- Hospitals: $0M (0%)
Criteria for Selecting Comparison States

- Student Population – Size & Demographics
- Governance Structure
- Enrollment and Funding Levels & Trends
- Higher Ed Funding Mix (e.g. state financial aid, state operating funding, tuition revenue)
- Mix of Institution Types
Formula Review Guidelines

01 Assess the principles and priorities guiding the model
  • How does the funding model align with state priorities and objectives for higher education?

02 Avoid making drastic changes to funding models
  • Drastic changes to funding models could add more uncertainty, while decreasing the focus on equity, quality, and student outcomes. Any changes should follow a thorough analysis of potential scenarios.

03 Apply a student- and equity-centered lens
  • Does the funding model appropriately reflect the varied needs of institutions and the students they serve?
Thank You!

Get in touch

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