

**NEVADA SYSTEM OF HIGHER EDUCATION
ad hoc COMMITTEE ON HIGHER EDUCATION FUNDING**

Legislative Building, Room 4100
401 S. Carson Street
Carson City, Nevada
March 19, 2024

Video or Telephone Conference Connection from the Meeting Site to:
Grant Sawyer State Office Building, Room 4401
555 East Washington Avenue
Las Vegas, Nevada

Minutes are intended to note: (a) the date, time and place of the meeting; (b) those members of the public body who were present and those who were absent; and (c) the substance of all matters proposed, discussed and/or action was taken on. Minutes are not intended to be a verbatim report of a meeting. An audio recording of the meeting is available for inspection by any member of the public interested in a verbatim report of the meeting. These minutes are not final until approved by the Committee at its April 26, 2024 meeting.

Members Present:

Justice James W. Hardesty (Ret.), Chair
Chancellor Patricia Charlton, Vice Chair
Regent Byron Brooks
Senator Carrie Buck
Mr. Glenn Christenson
Mr. Richard Combs
Regent Carol Del Carlo
Senator Marilyn Dondero-Loop

Assemblyman Ken Gray
Regent Stephanie Goodman
Assemblywoman Erica Mosca
Mr. Tony Sanchez
Ms. Yvette Williams

Non-Voting Members

Dr. Kyle Dalpe
Dr. Peter Reed
Ms. Lindsay Sessions
Ms. Suzanna Stankute
Ms. Amy Stephenson
Mr. Chris Viton
Ms. Stacy Wallace

Others Present:

Crystal Abba, Committee Staff
Heidi Haartz, Committee Staff
Lynda King, Senior Associate General Counsel, NSHE
Dr. Amber Donelli, GBC Associate Vice President for Faculty Success

Dr. Karin Hilgersom, TMCC President
Dr. Federico Zaragoza, CSN President

Chair Hardesty called the meeting to order at 9:32 a.m. with all members present, except Ms. Yvette Williams and Ms. Betsy Fretwell whose absence was excused.

Chair Hardesty announced that the Committee was joined in Las Vegas by the NSHE Senior Associate General Counsel Lynda King, who would ensure the Committee remained compliant with the Open Meeting Law.

Before hearing public comment, Chair Hardesty stated that there would be two opportunities for public comment during the meeting – at the start of and before the conclusion of the meeting. No action may be taken on a matter raised under these agenda items until the matter is included on an agenda as an item on which action may be taken.

Chair Hardesty also provided information on providing public comment in person or telephonically. Those wishing to provide public comment telephonically may do so by calling 888-475-4499. At the prompt, the meeting ID number, 87381403793, should be entered, followed by the pound sign. He also reminded callers that these instructions could also be found on the top of the meeting agenda.

1. Information Only-Public Comment

Kent Ervin, Nevada Faculty Alliance, shared that he had submitted written public comments to provide context for some of the presentations included on the agenda. He noted regarding self-supporting accounts, improving transparency and accountability would be important, and stated that many student fees have been established outside of the state-supported budgets.

Mr. Ervin then discussed the funding formula, stating that a good funding formula would provide for offering courses and student support without resorting to extra mandatory fees. A fair formula would take into account all cost measures, rather than using a single metric. That would add complexity, but NSHE institutions are complex. Mr. Ervin also stated that he looked forward to the recommendations from the presidents of Great Basin College (GBC), Truckee Meadows Community College (TMCC) and Western Nevada College (WNC).

Mr. Ervin stated that the Committee's job was not to favor a particular institution or category of institution, but rather to be fair and equitable in providing funding to support student achievement and the other missions of higher education.

Mr. Ervin shared this his written submission questioned the types of revenue included in the institutional comparisons per FTE by HCM Strategists, in agenda item number 6. He observed that some revenues, such as research grants, do not support instruction, so including those in per student comparisons would not serve to develop a fair and equitable formula. He also stated that HCM Strategist is proposing outcome-based models with a percentage of the funding tied to outcomes. He recommended that since outcomes metrics are necessarily delayed, some by years, any funding tied to those metrics should be phased in over several years to allow institutions a fair chance to meet their goals.

Ms. Yvette Williams joined the meeting at 9:35 a.m.

2. Information Only -Opening Remarks

Chair Hardesty asked the Committee to be mindful of the time parameters that had been established for each agenda item. While he did not want to restrict Committee members from asking questions or offering comments, he wanted to be sure all presenters had adequate time to make their presentations. He also informed the Committee that NSHE would use its host fund to provide lunch to the Committee members.

Chair Hardesty next provided an update on work that had been under way since the February meeting. Following the February meeting, the presidents of NSHE's teaching institutions were asked to provide specific recommendations to improve the NSHE funding formula and the performance pool. His request asked each president to focus the recommendations on the specific needs of their institution, based on the concerns expressed during the Committee's February meeting. The Chair stated that he appreciated that the presidents responded in a timely manner and provided thorough assessments and analysis in their responses.

Chair Hardesty stated that staff forwarded the responses to HCM Strategists, along with a summary matrix, so the input of the presidents can be contemplated as HCM continues to develop recommendations for the future of the NSHE funding formula and a performance pool. Chair Hardesty indicated that staff were also in the process of adding additional detail to the summary matrix regarding possible data sources for student attributes and funding estimates for recommendations that may require additional funding. This summary document should create both a summary of the recommendations and a possible road map for next steps as the Committee begins discussing and developing recommendations.

Chair Hardesty assured the Committee that once the spreadsheet was complete, the spreadsheet and the responses from each president would be shared with the Committee and posted on the Committee's website. This should occur prior to the April meeting, which would allow members an opportunity to review all of the materials. He believed the members would begin to see common theme emerging across the institutions, as he did when he reviewed the materials.

Chair Hardesty informed the Committee that due to a delay in receiving the audio recorded from the February meeting, the Committee's February meeting minutes would not be available until the April meeting. He assured the Committee that staff had resolved the challenge moving forward, so meeting minutes would be available at the following meeting.

Additionally, HCM Strategists had been conducting interviews to learn more about people's perceptions of the current NSHE funding formula and their thoughts and ideas to improve that formula. Chair Hardesty reported that it was his understanding that of the 31 interviews scheduled, more than half of the interviews had been completed. He offered his appreciation to those who had participated in the interviews.

Nex, Chair Hardesty asked the Chancellor if she had remarks she wanted to share, as the Vice Chair of the Committee.

Vice Chair Charlton began by thanking the Chair for giving the Committee an opportunity to hear directly from the presidents of the teaching institutions about their missions and how the funding formula could be revised to support those missions. She also shared her observation that

common themes were emerging and would likely guide the Committee as it developed recommendations.

Vice Chair Charlton stated she recognized that as supporters and representatives of higher education, the Committee would continue to advocate for additional state support for higher education; however, the funding for this study was to review the current funding formula, which serves as the primary mechanism for allocating base funding to teaching institutions.

Vice Chair Charlton reminded the Committee that while NSHE's presidents shared their concerns for the funding formula, HCM Strategists had determined in its previous assessment that the funding formula was considered a type 4 or advanced formula. This designation was based on the framework of the formula, including its focus on student outputs in the form of course completions in the base formula and a clear focus on student completions in the performance pool, including outcomes for under-represented students, low-income students, and transfer students. She acknowledged there are concerns across the institutions about the formula, and the Committee has an opportunity to make recommendations on the distribution of those funds. While the Committee may develop recommendations that require additional investment in higher education, it is important to ensure that those investments are made through that distribution of state funds.

Vice Chair Charlton expressed her appreciation for the Governor and the legislature for their support of the review of the funding formula and the state appropriation that supports this external review process.

Vice Chair Charlton concluded stating that the presentation from HCM Strategists would include a thorough review of the current funding formula and lay a foundation for the Committee, as it begins discussing how current funding is distributed.

Chair Hardesty requested that presenters avoid the use of acronyms because the Committee members were not yet experts on the terminology or acronyms used in higher education funding.

Chair Hardesty then introduced the next agenda item, reminding the Committee that this presentation was previously included on the Committee's February meeting agenda. He added that this presentation was intended to provide an assessment of NSHE's current policies and practices, which would assist the Committee with developing recommendations for NSHE's self-supporting accounts.

3. Information Only -Self-Supporting Accounts: Overview of NSHE Practices and Protocols

NSHE Chief Financial Officer Chris Viton presented an overview of self-supporting accounts utilized across NSHE, including the current reporting requirements established by the Board of Regents. He acknowledged some perceptions of the System with respect to self-supporting funds. He indicated that because NSHE has self-supporting activities there is often discussion around the ability of NSHE to fund activities from its own resources versus seeking state

support. In addition, there are concerns around transparency, and NSHE is seeking to improve transparency.

Mr. Viton provided highlights related the distribution of resources through the System between state-supported activities and non-state activities. Referring to slide number 4 of his presentation, he indicated that 47 percent of the System's FY2023 revenues and expenses were in the state-supported operating budget. He noted that 47 percent is state-supported activity, not just state appropriations. As a result, within that 47 percent student fees are on the state-supported and non-state side.

He explained that within the state-supported accounts, 34 percent of that side of the pie is student fees. He explained that when you consider the state revenue sources, 31 percent is state appropriation, and 69 percent approximately non-state sources. But in terms of the state-supported operating budget in total, that includes the allocation to the state budget, 47 percent, or just less than half of the system's activities, are in the state-supported accounts.

He continued by explaining the different types of revenue sources that fall in the self-supporting account or non-state category. He noted there are activities that the Board [of Regents] defines as self-supporting that exclude certain types of activities, in particular, grants and the like. The term "self-supporting" has a narrow focus. It's not all non-state activity. In NSHE self-supporting accounts are categories such as student tuition and fees. Student tuition and fees is that portion of the registration fee that is not allocated to the state-supported operating budget. All other student fees, all of the other term and course fees that are approved through the Board of Regents for the campuses.

He noted that in addition to student fees, a large area of [non-state] activity is sales and service, which includes athletic programs, ticket sales, other event activities. Non-state activity also includes the facility and administration revenue, which is the administrative overhead that's allowed on federal awards, sponsored activity. The non-state category also includes investment income, and other revenues, for example, leases.

In regards to the use of self-supporting accounts it tends to include the uses that are also in the state-supported accounts, such as instruction, research, public service, academic support.

Mr. Viton provided information on certain Board policies covering self-supporting programs. He noted that as mentioned in public comment, the Board has a policy that only requires activities in excess of \$250,000 to be in budgeted accounts. Further, he noted that requirement does not prevent the campuses from budgeting smaller accounts. Often campuses are budgeting in amounts lower than \$250,000, but the \$250,000 is the Board's policy threshold. Recently, this policy was revised to reflect the size of the System and concern that System accounts, both in the administration of campus budgets and at the board level, review those budgets.

He continued explaining that self-supporting accounts have a definition in Board policy that excludes activities such as grants and contracts, plan accounts that are projects. Those will also be budgeted but under different protocols. Student fees, while excluded, generally, more are budgeted than not. This is to allow for special course level, smaller fees to be under a budgeting

threshold. And then scholarship funds, scholarship funds are managed through scholarship offices and generally forecast based on activities. As such, they are not budgeted through budgeting offices, but they are budgeted through the financial aid offices that manage those programs. Annually, the Board receives reports that include both new year budgets and prior year budget to actuals that are reviewed, including explanations of variances from the campuses.

Mr. Viton continued by highlighting the various reports that are produced, in addition to the comprehensive, self-supporting budget reports that look at the campuses and self-supporting activity in total. There are numerous reports that pull-out segments of the activity, and are focused on particular activities or particular fees. All of the reports that are actually prepared by the System and presented to the Regents over the course of the fiscal year include: Self-supporting Budget to Actual; Self-Supporting Annual Operating Budget, Summer Term Budget to Actual, Summer Term Annual Operating Budget, Quarterly Fiscal Exceptions Report, Annual OMB Compliance Audit, Annual Independent Financial Statement Audit, Semi-Annual Consultant Report, Annual Athletics Program Reports, Annual Student Fee Account Balance Report, Annual Technology Fee and iNtegrate Technology Fee Reports, Annual Tuition and Registration Fee Discounts Report, and Differential Program Fees Report.

Mr. Viton continued by noting that during the 2021 legislative session, Assembly Bill 416 required the legislative auditor to conduct performance audits of the Nevada System of Higher Education. The performance audits fell into three categories: the institutions' foundations and gift activity; capital construction projects at the two universities; and reserve and self-supporting accounts. The audits were conducted in the 2021-2022 interim and were presented in January 2023 to the legislative audit subcommittee. The audits focused on financial activity related to self-supporting and reserve accounts for fiscal years 2018 through 2021, and when necessary and available, they included activity through fiscal year 2022.

Mr. Viton provided a summary of the auditor's observations and included 13 recommendations to improve System policies, System-level oversight, and reporting templates. The auditor noted that the institutions appeared to make a concerted effort to utilize all their state appropriations before other types of funding were used. In addition, the auditor noted some activity that was managed between campuses. So as the system has attempted to implement some level of shared services within the system, that has resulted in some inter-campus activity. In some cases, this occurred with self-supporting programs, and others, it was utilizing state payments between campuses. The auditors highlighted some of that type of activity. The auditor also mentioned questionable use of certain Board approved fees and some instances of inaccurate or incomplete reporting and a lack of policy guidance in general.

Mr. Viton explained that the System accepted all of the audit's recommendations and took steps to implement changes to Board policies and System procedures to address the recommendations raised by the auditors. In particular, the concern regarding the system's protocols around management of state funds and the utilization as a priority over other sources. There was a concern about the System's expense transfer policy and noted, in particular, timing around the end of the fiscal year. He explained that policy was amended and the Board added a requirement for transfers from non-state activity to state activity to be reviewed by a designee of the institutional business officer prior to completion. Further, the system has been working on an

update or a business process configuration in our automated system to facilitate that control in an automated business process.

Regarding the questionable use of student fees, Board policies were updated for the use of student fees and requirements for programs with multiple funding sources addressing the concern in the audit. The audit noted the lack of clarity in Board policies regarding certain fees, and in certain programs the audit noted the campuses co-mingled student fees with other revenue sources. This raises the issues of being able to map or identify the specific expense or specific revenue that may have funded a particular expense within the program. He explained the campuses' approach on those co-mingled sources resulted when a program had insufficient student fees and had other revenues available, so the institution co-mingled funds with the understanding that the student fees were being fully expended. Board policies were adjusted to address those concerns and encourage campuses to not co-mingle those sources and separately account for them.

Regarding the concern of the lack of inconsistency in reporting and some reporting errors, the policies were adjusted to add reporting requirements around fees that did not have reporting requirements. Similar to previously noted reports, new reports were added that will be provided in the current reporting cycle to provide a summary of the fiscal year activity within certain categories. Further, policies were modified to provide clarification around certain types of reporting and more emphasis was placed as the System has been working through the first round of new reports ensuring the system office can take a more active role in reviewing and validating the campus provided information as the reports are assembled.

Concluding his presentation, Mr. Viton noted that following the audit, the System is continuing to provide oversight and transparency and accountability for self-supporting account reporting and for all reporting across the System.

Mr. Glenn Christenson asked if Mr. Viton had an opportunity to review the letter the Committee received from the Nevada Faculty Alliance. He noted the letter stated that "although reporting of self-supporting accounts is being improved by NSHE in response to the legislative audits, there remains a lack of full transparency. That means that thousands of accounts aren't being reported to the institutions -- from the institutions to the Board of Regents." Further, the letter noted that "state-supported operating budgets and reported self-supporting accounts with NSHE's audit of financial statements indicates that \$375 million is missing from the reports to the Regents." Mr. Christenson concluded by asking to what extent should the Committee be thinking about some of the issues raised by the NFA and asked if Mr. Viton agreed with the characterization.

Mr. Viton indicated he spoke with Mr. Ervin and that he and Mr. Ervin have had a few conversations. Further, Mr. Viton explained that he intends to update and make continuous improvements on the self-supporting reporting to ensure that NSHE is addressing the concerns that there's unbudgeted accounts that aren't included in the reports. He plans to work with Mr. Ervin and reconcile those differences. He noted that taking a look at the information presented this morning that the System sponsored program activity, the research grants maybe, are likely the most significant portion of that \$375 million noted in Mr. Ervin's letter. He explained that the System has approximately \$350 million in research and grant activity in FY2023, which is

that period they were looking at there. He noted those are sponsored activity excluded from the System's self-reporting and other reports. However, it is included in the annual financial statement that is subject to audit. As such, the Board does receive a comprehensive external certified audit, referred to as the single audit, that covers the research and sponsored award activity.

Mr. Christenson noted that looking at the number of reports, it looks fairly extensive.

Assemblywoman Erica Mosca asked if the split between state and non-state accounts [noted on slide number 4] is typical. Has that split changed over time?

Mr. Viton noted that as of the past ten years or so that is a fairly typical distribution, and certainly in the most recent cycles of the state biennial cycle, it is a fairly consistent distribution between state and non-state.

Regent Stephanie Goodman noted that although Nevada Faculty Alliance sounds like it represents all faculty, it would be concerning to receive such a letter. She explained that the NFA is a union is only representing some of the institutions. Further, she noted that institutional faculty senate chairs represent all faculty on each campus.

Senator Marilyn Dondero-Loop noted that student registration fees are noted as source for both state and non-state accounts. She requested an explanation for what appears to be an inconsistency.

Mr. Viton explained that the student registration fee that is paid on a per credit basis is allocated to both state and non-state accounts, which is then approved by the Board. He further noted that a significant portion of the base registration fee is allocated to the state supported operating budget as part of the biennial process. He noted that generally speaking, the non-state portion of the registration fees are for items like capital improvement fee, general improvement fee, activities and programs. The student nonresident tuition is allocated 100 percent to the state supported operating budget.

Ms. Yvette Williams asked what percentage of the student registration and other student fees represent non-state versus state funding and then referring to slide number 4. On slide number 5, what percent of those student registration fees make up the total source of non-state funding?

Mr. Viton indicated that on the state supported operating budget side 47 percent of the total being state-supported, 34 percent of that portion is student registration fees and nonresident tuition, which is approximately 66 percent state appropriation and 34 percent registration fee and nonresident tuition. In the non-state accounts, approximately 20 percent of the 53 percent is student registration fees and other student fees. The student housing and dining is considered auxiliary, and that is categorized as sales and service, so that is included in the 20 percent. The other student fees are categories like differential fees, special course fees, some other program fees, student health fee, things of that nature. The non-state portion that is in the self-supporting activities for fiscal year 2023 included about \$636 million of total activity; of that, \$241 million.

Vice Chair Patricia Charlson provide a point of also clarification for Mr. Christenson, noting that in addition to other reporting that the Board of Regents receives on an annual basis, there is a sponsored projects report that goes to the Board's Academic, Research and Student Affairs Committee.

Mr. Rick Combs asked if Mr. Viton could expand on indirect cost recovery revenues, including the magnitude of how much that amounts to in a year and what indirect cost recovery revenues are used for. How are those things funded originally and how is the indirect cost recovery revenue treated once it's received back?

Mr. Viton explained that the management of those funds happens at the campus level. Each campus has its own protocol for how the indirect cost recovery revenues are allocated back to the units that are generating the sponsored activity, and more specifically, how those funds are used on the campus. He noted the federal government approves the indirect cost rate through a study, analysis of the campus' actual cost that supports the overhead rate that's charged to the grants. Those revenues then represent the indirect costs that the grants are charged the direct cost of each award and the indirect costs are billable as a percentage of those direct costs. The distribution of those revenues and use of those revenues on the campus is determined by the campus. However, it is primarily used to support research infrastructure and is also used to provide start-up packages for hiring new researchers. It is a source that may be used for a portion of facilities expansion or improvements and maintenance as well, but generally those specific protocols are determined at the campus level.

Mr. Combs asked if it safe to assume that the state is funding some of those costs originally that get indirect cost recovery revenue?

Mr. Viton noted on the self-supporting budgets, the total for FY 2023 was approximately \$636 million; of that, about \$54 million was indirect cost recovery. The System's total annual expenses for FY 2023, state and non-state, was about \$2.2 billion. Of that, \$53 to \$54 million is what was in the campus' self-supporting activities for indirect cost recovery. In terms of the sourcing of expenses that would have been considered in determining the overhead rates. You would have to look at the analysis in each of those cost studies to confirm; however, it is an administrative overhead that is looking at administrative costs and facility costs. To the extent that some would be operations and maintenance on the campus, yes, that's possible.

Chair Hardesty referred the Committee to the Summary of the NSHE Funding Formula that was provided at the February 12, 2024, meeting. That summary included a comparison of revenue sources, including the self-supported accounts that were referenced. Additionally, the Committee received the legislative audit prior to the meeting. He recommended that members review the reports. In response to the questions of the Committee, he requested that Mr. Viton provide additional information, particularly as it relates to the questions posed by Senator Dondero-Loop, specifically the allocation of student fee increases and how that's arrived at by the Board. Also, it would be helpful to expand on the questions asked by Ms. Williams in terms of how those percentages are arrived at as a component of the non-state and state support. What guides the Board of Regents in making those allocations of those amounts? Is there a policy to that effect? When the Board is faced with questions about raising student fees, how are

those assessed? As to indirect cost recovery, is there a formula that helps define and explain how those allocations are made for indirect cost recovery and what is the front-end load that is attempting to be recovered?

4. – Information Only - Institutional Mission And Funding Priorities

Chair Hardesty apologized to the community college presidents that were unable to share their presentations during the Committee's February meeting. He assured the presidents that the presentations were postponed because the Committee ran out of time during that meeting, and he did not intend to insult anyone or imply that the community colleges were not equally important as the other institutions. He reminded the Committee that the presidents of GBC, TMCC and WNC would be presenting on their institutional missions and how those missions drive their budget priorities. The presidents would also provide recommendations to improve the NSHE funding formula.

He also reminded the presidents that 20 to 25 minutes had been allocated for each presentation, plus an additional 5 minutes for questions. He also advised the Committee that the slide deck for GBC had been updated since the February meeting; however, the slide decks for TMCC and WNC remained unchanged.

GBC Presentation

Dr. Amber Donelli, Associate Vice President for Faculty Success, GBC, indicated that she was presenting on behalf of President Joyce Helens, who will retire in June, and that she would become the Interim President on July 1, 2024.

Dr. Donelli stated that GBC's vision and values align well with its mission, which is transforming lives through education. By preparing students for lifelong learning in our global workplace, GBC is equipping them with the tools needed to succeed in an ever-changing world. GBC's focus on industry training, healthcare, teacher education and liberal arts reflects a comprehensive approach to education that addresses both individual and community needs.

Dr. Donelli provided information on the students attending GCB. Approximately 3,200 to 3,500 students attend GBC, 65 percent of whom are part-time students. Ninety-two percent of students are Nevada residents. Seventy-six percent of students attend online, which demonstrates GBC's commitment to accessible education opportunities. Dr. Donelli stated that GBC is proud of its accreditation commendations for distance education, affirming the quality of the online programs. Dr. Donelli provided data on the race and ethnicity of GBC students: 55% of the student population is white, 26% are Hispanic, and 18% identify as other. This past year, GBC experienced an increase in Hispanic students, increasing from 16% to 26%, designating GBC as an Emerging Hispanic-Serving Institution.

Dr. Donelli indicated that state appropriations comprised 60% of the core revenue; however, due to changing economic conditions and budgetary priorities, this percentage has declined to 38%. This shift underscores the importance of diversifying revenue streams to mitigate the impact of fluctuating government spending. To mitigate decreases in funding, GBC actively seeks alternative sources of revenue, while maintaining the quality and accessibility of its education

programs. For example, the Mining Center of Excellence is a collective effort between GBC and the University of Nevada, Reno (UNR), aimed at advancing industry focused education within the mining sector. Dr. Donelli stated that through this partnership, GBC and UNR can combine their expertise and resources to offer comprehensive programs and hands-on training that addresses the evolving needs of the mining industry. She added that this collaboration strengthens educational offerings, fosters innovation, and drives economic growth in the region and beyond.

Dr. Donelli stated that GBC plays a vital role in providing skilled workforce for rural Nevada through a range of specialized programs tailored to meet the needs of local industries, such as diesel technology, electrical systems technology, industrial maintenance technology, instruments technology, and welding technology. Dr. Donelli provided examples of programs that meet workforce needs: GBC equips students with the technical expertise needed for various roles in industry, such as mining, manufacturing and transportation; the manufacturing machinist program provides training on precision manufacturing; the commercial drivers' license program addresses the critical need for qualified drivers in rural areas; and healthcare programs and teacher pathways for elementary and secondary education ensure a pipeline of qualified professionals to meet the healthcare and education needs of rural communities.

Dr. Donelli addressed the challenges of providing mental health resources, sharing that GBC utilized federal grant funding, through the Substance Abuse and Mental Health Services Administration (SAMHSA), to acquire and implement the BetterMynd program. GBC received a total of \$131,906 through the grant and \$46,000 from a community partner, Elko Federal Credit Union. This has allowed GBC to enhance its capacity to address mental health needs, by offering 24/7 access to mental health resources. BetterMynd went live in November. Since that time, 31 students accessed resources, demonstrating its immediate impact and importance. Additionally, GBC trained 230 students, employees and alumni on applying mental health first aid to the community and the college.

Dr. Donelli stated that one of GBC's primary concerns is recruitment and retention of qualified staff, particularly in programs where industry salaries surpass those of the community colleges. Additionally, GBC must proactively plan for increases in the utilities, noting that utility expenses for GBC exceed \$240,000. Enhancing campus security is paramount, and GBC plans to implement a limited access measure through door control access; this will require an investment of approximately \$150,000.

Dr. Donelli discussed the deferred maintenance needs for GBC, which include roof and HVAC system replacement, as well as college-wide ADA compliance upgrades. Last year, GBC was allocated \$1.5 million for essential infrastructure enhancements. Dr. Donelli stated that the priority for capital improvement projects is creating a one-stop shop in Berg Hall. The project is estimated to cost \$2 million. Another priority is the modernization of the library, which will create an innovation and technology center. GBC is pursuing federal funding to support this initiative.

Dr. Donelli stated that it is imperative to address the looming deadline regarding the development of the Pahrump campus. If GBC does not begin development by 2026, it will be lost. It is estimated that \$2.3 million is needed to initiate planning and design for this property. Next, Dr. Donelli discussed GBC's recommendations for the funding formula. She indicated that an area consistently affected by the current formula is part-time students. Part-time students represent 68 to 71 percent of the student body. Despite this, the institution boasts a graduation rate of 48 percent, indicating a high level of persistence among part-time cohorts and effective retention efforts. Because both full-time and part-time students require the same equivalent support and resources, GBC would recommend incorporating a factor of 0.33 to 0.5 for each part-time student, reflecting their substantial presence and resources that they need.

Dr. Donelli reminded the Committee that the Small Institution Factor has not been increased since 2013, and no longer reflects the cost associated with operating a small institution, especially an institution with four campuses across the state. GBC identified two options to adjust the Small Institution Factor. Option 1 would add a metric to the calculation for the Small Institution Factor to support the higher number of part-time students. Option 2 would adjust the \$30 weighted student credit hour value.

Dr. Donelli stated that workforce development is a cornerstone of GBC's mission. In order to meet that mission, GBC recommends creating a funding multiplier of 4.0, based on a weighted student credit hour, for all CTE disciplines and supporting year-round funding. Additionally, GBC recommends summer classes, which would promote accessibility, flexibility, timely graduation, academic support, and revenue generation, benefiting both students and the institution.

With respect to the Performance Pool, Dr. Donelli indicated that GBC would recommend removing the Performance Pool carve-out and make it part of the base funding. GBC would also recommend implementing a three-year rolling average of weighted student credit hours. This would smooth the financial impact to GCB.

Dr. Donelli provided an additional recommendation for deferred maintenance and capital improvement projects. She recommended establishing a separate revenue stream to support ongoing deferred maintenance and capital improvement projects, because it is essential for ensuring the long-term viability, safety, and functionality of the institution's infrastructure.

Lastly, Dr. Donelli discussed the financial impact of fee waivers, specifically the Native American waivers. She stated that last year, GBC had 11 students utilize the waiver. Since that time, the financial aid office has been working with the five reservations in the GBC service area, which has resulted in an increase in the number of students seeking the waiver. During the Fall 2023 semester, the number of students seeking the waiver increased to 43.

Ms. Williams asked for examples of revenue earned through government grants, contracts, and other sources, noting that the GBC indicated that 23 percent of the revenue was from government grants and contracts and 22 percent was from other sources; combined that represents almost 45 percent of the revenue reported. Ms. Williams also asked for more information on the impact of inflation during the past decade and the fiscal impact of unfunded waivers. Dr. Donelli

responded that during the past year, GBC had applied for 18 or 19 grants and was awarded funding for 16 of the applications totaling approximately \$11 million. The source of grant funding includes private donors, private charitable trusts, as well as grants through other state agencies, such as the Office of Energy, Office of Workforce Innovation (OWINN), and Governor's Office of Economic Development (GOED). GBC also received funding from the Nevada Department of Education to incentivize teacher pathways. Dr. Donelli confirmed that GBC is facing inflationary cost increases, similar to other institutions. She added that the costs incurred by GBC are impacted by having multiple campus locations throughout the state. She reported that the utility costs for the current year are in excess of \$240,000.

Ms. Williams asked if GBC had prepared forecasts to predict the impact of future inflationary costs, specifically for utilities and for cost estimates for waivers. Dr. Donelli indicated that the Chief Financial Officer, Tony Asti, is new in his position but is in the process of analyzing utility expenses. Dr. Donelli added that waivers are unfunded mandates and the fiscal impact is considerable, especially as the number of waivers increase, as was the case with the Native American waiver. She believed the fiscal impact for the Native American waiver in the Fall totaled approximately \$80,000. She anticipated an increase in the waivers in the Spring, which could result in an unfunded mandate totaling \$180,000 for that waiver. She added that other waivers are available to GBC students, for example for veterans and foster care student waivers, but the fiscal impact is much less.

Vice Chair Charlton observed that the first slide in Dr. Donelli's presentation did not include the GBC mission that had been previously approved by the Board of Regents. She asked Dr. Donelli to clarify if the mission in the slide deck was aspirational or if GBC is in the process of changing its mission statement. Dr. Donelli stated that GBC is in the process of reviewing its mission and what she included in the slide deck was a summary of what the mission statement may become.

Vice Chair Charlton providing additional information on fee waivers, sharing that the Interim Committee on Education is reviewing fee waivers in higher education.

Dr. Peter Reed stated that he thought the presentation made an important point regarding the lack of full funding to support part-time students, versus full time students, adding that while part-time students don't take as many classes, they often require many of the same support and services as full time students. He asked if Dr. Donelli could provide a couple of examples of the types of support part-time students need that are not accounted for in the current funding model. Dr. Donelli indicated that part-time students receive the same support services as full time students, so they receive academic and financial aid advising. Additionally, several programs cater to part-time students that are stackable credentials and smaller certificates. Those often require individual advisement. A specific example includes the Certified Nursing Assistant program. Even though it is only six credits, which represents a part-time student, staff invest a great deal of time working on affiliation agreements, student background checks, arranging facility experiences. Dr. Donelli also stated that all students have access to mental health services provided through GBC.

Ms. Suzanna Stankute asked how many nontraditional students, students over the age of 24, attend GBC. Dr. Donelli estimated that approximately 38 to 40 percent of the students at GBC are nontraditional students.

Chair Hardesty requested that Dr. Donelli follow up with the specific percentage of nontraditional students, then he asked if Dr. Donelli knew what percentage of GBC funding is state funding versus non-state funding. Dr. Donelli responded that she would confirm with her financial advisor to obtain accurate percentages.

Chair Hardesty asked if the funding for the BetterMynd program is included in the self-supporting budget account reports. Dr. Donelli stated that the program is funded through federal funding that came to NSHE through a SAMSHA grant. Each institution received an allocation based on the size of the institution, which resulted in GBC receiving \$60,000. And the allocation increased to \$131,000 when federal funding was not spent by other institutions. Then, GBC received additional funds for this project from the Elko Federal Credit Union. Dr. Donelli continued, stating that the downside to any program that is not state supported is that the funding is only available for a specific amount of time.

Chair Hardesty asked if Dr. Donelli could provide a breakdown for the deferred maintenance and capital projects, identifying which are state supported and which are not state supported. Dr. Donelli agreed to provide that information to the Committee.

The meeting recessed at 11:03 a.m. and reconvened at 11:15 a.m. with all members present, except Ms. Betsy Fretwell.

TMCC Presentation

Dr. Karin Hilgersom, TMCC President, shared that she had served at TMCC since June of 2016, after spending most of her adult life in eastern Washington where she worked at Spokane Community for 22 years; Walla Walla Community College where she became a vice president; Bend, Oregon; and upstate New York where she had her first presidency. She explained these experiences provide her insight into multiple funding formulas and Nevada is the only state where the funding model is so complicated and makes it challenging to actually plan for the operation of a college. As a president, my primary job is planning.

Dr. Hilgersom stated that in her opinion the funding formula is broken, and it fails to recognize the unique mission of community colleges as well as the missions of the universities or the Desert Research Institute (DRI). Because the formula does not account for these different missions, investment runs short. The funding formula inhibits planning because some elements of the formula fail to mitigate risk, while other elements create budgetary risk. Additionally, institutions are impacted by hypercompetition within the System.

Dr. Hilgersom shared the mission for TMCC: TMCC is a leader in innovative education, meeting student and community needs; TMCC creates a future students will love with accessible, innovative educational opportunities. She described TMCC as a comprehensive community college. Dr. Hilgersom stated that 68 percent of TMCC students say they want to earn a degree

or a certificate. Those certificates average 24 credits; they are short term opportunities. Thirty-two percent of TMCC students are not degree-seeking. For example, they plan to take three classes in business, after which, they open up their business knowing they have learned how to mitigate the risk of running a business. Dr. Hilgersom stated this is a student success; however, the funding formula will only account for the credits completed by these students.

Dr. Hilgersom stated that as a comprehensive community college, the top priorities are supporting transfer students, workforce development, developmental education, professional, technical and health careers, high school equivalency and English as a second language. To accomplish this, TMCC must simultaneously grow and maintain its infrastructure, facilities, deferred maintenance, and investment in public safety. TMCC must also maintain state of the art IT systems, including cybersecurity and network integrity. Dr. Hilgersom stated that the cost of cybersecurity and network integrity is increasing dramatically. During the past 5 years, the cost of cybersecurity insurance has increased by at least 30 percent.

Dr. Hilgersom shared her assessment of the current funding formula for higher education. She stated that the current funding formula implies that students at a predominantly two-year college, such as TMCC, should be treated the same as first- and second-year students attending universities. This is a major flaw in the formula. Many of two-year college students desire to enter technical fields or health career fields, which are often expensive to provide. The current course taxonomy gives lucrative weights to upper division and graduate school credits that two-year colleges do not offer in significant numbers.

Dr. Hilgersom also stated that the funding formula disincentivized helping students be ready for university transfer, which is a very different dynamic compared to other states. The current course taxonomy puts too much emphasis on course completion, to the detriment of a stable base that allows presidents to plan. She indicated that in Washington state a stable base funding amount was provided, which allowed colleges to plan. Then, there were performance-based measures that were in excess of the base. Colleges did not want to lose that new money, so it served as an incentive to help people become college or career ready, and it incentivized innovative teaching practices, which lead to improved completion rates.

Dr. Hilgersom provided statistics about TMCC students. TMCC serves traditional students and Pell eligible students at an affordable price point. Many students attend part-time because they have jobs and families. The average credit load is eight. Many of our students earned less than a 3.0 GPA in high school. Many students are from under-represented groups who may require high school equivalency and/or ESL. Some students need remediation in English, math, and reading for college success. TMCC has students who attend high school and are taking advantage of dual enrollment programs.

Dr. Hilgersom stated that when enrollments dip, universities adjust their GPA levers, granting more students admission. Community colleges do not have that option because they are open access institutions – all students are welcome. When universities lower GPA levers, it potentially takes students away from community colleges.

Dr. Hilgersom stated that TMCC is not funded appropriately for nursing programs, based on the course taxonomy. She said she believed that a factor of two is applied to nursing programs, while there are certain graduate programs that have a factor of five or six. She stated that TMCC subsidizes this program through other programs because the state funding does not fully support expensive health careers, such as nursing.

Dr. Hilgersom indicated that TMCC shares the same challenges as other community colleges with respect to providing support services to students, both full time and part time. She continued, stating that sustaining and creating new workforce programs is vital to Nevada's economic prosperity. TMCC received about \$18 million from grants this year, and it's those grants that support innovation. This reliance on grants creates instability for the institution.

Dr. Hilgersom provided recommendations to improve the funding formula. Establish a fair base that assumes necessary support staff and is quasi-performance based, not completely performance based, and provides a greater factor for part-time students. This will eliminate budget volatility, eliminate hypercompetition, and incentivize partnership. Consider a formula that supports readiness for all Nevadans. Utilize a three-year rolling average of credit count for Nevada's two-year colleges. While this could hurt institutions in some years, it would provide the benefit of less volatile funding over time. Eliminate the Performance Pool. It is not do much for anyone. Dr. Hilgersom also recommended that noncredit workforce training be included in the funding formula because it is such a large part of the community college mission.

Regent Stephanie Goodman stated that it would be important for the Committee to consider what success means for community colleges. Many students experience success having begun at a community college then moving on to the University of Nevada, Las Vegas or University of Nevada, Reno.

Ms. Williams shared that she was an advocate for workforce development and training and believed community colleges are a great choice for both. She stated she would be thinking about how to address that in the funding formula by creating weights for workforce training at both the community colleges and the universities. She also recommended that it may be worthwhile to invite workforce connections and other institutions to weigh in on this concept. Ms. Williams then asked Dr. Hilgersom to provide insight into what she believes would constitute a "fair base" for part-time students and what recommendations would she offer for dual-enrollment students. Dr. Hilgersom stated that the recommendation is to increase weighting for part time students by 0.33 to 0.5 percent. She then added that the whole taxonomy should be reviewed, and weights should follow a stable base. A stable base should be at least 50 percent of the state appropriations for each institute; the remaining amount could be included in a Performance Pool. Dr. Hilgersom stated that she believed Nevada is very behind with respect to dual enrollment. At TMCC, three different models are used for dual enrollment: concurrent enrollment, which relies on qualified high school teachers; deployment of an instructor to a school; or J2, in which students attend on campus outside of regular school hours and pay for the courses. Dr. Hilgersom states that she fears the concurrent model is subsidizing high schools because TMCC does not receive enough funding to subsidize other educational entities.

Vice Chair Charlton asked Dr. Hilgersom to provide an estimate of the funding gap for nursing programs, acknowledging that while the cost is high, some state support is given at the two to one ratio and differential program fees have been added to offsets these courses. Dr. Hilgersom responded that the recommendation would be to increase the factor to 4. She added that the funding does not account for the costs associated with hiring a nursing faculty member and keeping that salary competitive with those working in the field. Dr. Hilgersom then stated that if an analysis was done, it may indicate that the factor needs to be increased to six at some point. She added that the course taxonomy has not been updated, other than when it was updated for logistics, transportation technology, advanced manufacturing, construction trades.

Vice Chair Charlton asked if increasing the taxonomy for nursing to four or five or six, would that result in changes to the differential fees and registration fees for students? Dr. Hilgersom indicated that it would not, the increase in the taxonomy would only allow the program to keep pace with the costs.

Ms. Stankute asked if TMCC tracks students after they graduate or after they take courses and if Dr. Hilgersom had recommendations for students who might not have graduated with a degree or a certificate but who have taken classes. Dr. Hilgersom said TMCC tracks its students to the extent their databases allow. For example, information is available through the National Clearinghouse on transfer students. There have also been positive changes with the Department of Labor and local workforce boards, which is why they try to partner with them. However, TMCC cannot track students who fall outside of those databases. In the past, TMCC tried to contact students who fell outside of those databases, but it was not an easy task, and it required a tremendous amount of staff time.

Chair Hardesty then asked for supplemental information from Dr. Hilgersom, asking her to please provide recommendations about what should be changed to eliminate disincentives for college readiness; provide more specific examples of the impact on TMCC when universities wave GPA entrance requirements; and provide the percentage of state and non-state funding for TMCC. Chair Hardesty then asked all of the presidents, to please provide examples of the fiscal impact of using a three-year rolling average and how those amounts compare the actual funding received. Lastly, the Chair asked Dr. Hilgersom to please expand on your statement that NSHE is behind other states in funding dual enrollment, specifically how would you recommend funding be assured. Dr. Hilgersom indicated she could address the Chair's third question – 72 percent of TMCC's funding is state funding and the remaining 28 percent is non-state funded. She noted that those percentages did not account for grants. Dr. Hilgersom then suggested the Chair consider posing many of these questions to the consultants or the System office due to the complexity of the questions. Then, she indicated she and her team would do their best to prepare responses.

Chair Hardesty indicated that part of the reason for his request is that while staff are attempting to generate responses to his questions, there have been number of areas suggested by the presidents for which system level data does not exist. If you don't have data either, then sharing that is helpful. Dr. Hilgersom asked if the Chair would be comfortable excluding the pandemic years from the three-year rolling average analysis, because those years were an anomaly and could skew the results. Chair Hardesty indicated he would agree to that.

WNC Presentation

Dr. Kyle Dalpe, President of Western Nevada College (WNC) and a member of the Committee began his presentation. He began by sharing that he had been in higher education for almost 30 years, 20 of which at NSHE. He also introduced Coral Lopez, the Chief Financial Officer at WNC.

Dr. Dalpe called the Committee's attention to the large service area for WNC. Then, he indicated that the challenges facing WNC are very similar to those faced by other community colleges, specifically the mission-specific funding elements. Other concerns include: noncredit classes, Small Institution for WNC and GBC, being a small school in a large and rural area and not having the economy of scale to functionally drive the formula.

From his slides, Dr. Dalpe indicated that the more education someone has, the more money they will make over the course of their lifetime. That is the sell for people contemplating becoming students. Additionally, as you gain more education, you become less likely to be displaced by an economic downturn, which is not uncommon in Nevada. Data from the National Skills Coalition shows that 51 percent of the jobs in Nevada will require more than high school but less than a bachelor's degree.

Dr. Dalpe stated that WNC will be updating its mission statement in 2025; however, the current mission statement was provided in the slide deck. The mission aligns with community colleges across the county as it emphasizes liberal arts and transfer, workforce development, developmental education, continuing ed, and community service.

Next, Dr. Dalpe addressed how institutional mission and objectives guide budget priorities. Community colleges serve everyone. Community colleges do not select students, students select community colleges. For that reason, community colleges must commit to supporting students and college preparedness. Dr. Dalpe stated that advancement is done outside of state funding. Grant writing, fundraising, gifts, and scholarships contribute to the advancement of the institution and its students. Dr. Dalpe stressed that these funds are not used to plug holes when there's not enough state funding. And in fact, donors want assurance that their contributions will not be used for that purpose.

After referencing author Malcolm Gladwell's books and presentations in which he discusses the capitalization rate, which is what economists use to determine how well a society leverages resources in any one area, Dr. Dalpe stated that as part of their mission, community colleges take all students, that is their job. Community colleges are designed to offer classes so that people can find their way when they not may not be academically prepared, or they are starting over, or they have no place else to go. Community colleges functionally are in the capitalization business for a society. Community colleges invest in people. Next, Dr. Dalpe provided a profile of WNC. As of the Fall 2023 semester, enrollment has increased by 17 percent. He added that WNC is one of the few colleges in the country that experienced only single digit enrollment declines during the recession or during the pandemic. He credited this success to his staff who worked on remote education in 2019, which allowed WNC to support students during the pandemic. WNC is anticipating at least a 12 percent increase in enrollment for the Spring 2024 semester. WNC is

experiencing its highest enrollment in more than 12 years. Dr. Dalpe stated that while the formula will reflect this increase in enrollment growth in the next biennium, he is not sure he will need that extra funding then, but he does need it now to support the increased number of students attending WNC.

Dr. Dalpe provided additional statistics on the students attending WNC: Seventy percent attend part-time, who can access the same services as full-time students. While full time enrollment is based on twelve or more credits, the majority of students at WNC are taking six to nine credits, which generates less revenue per student. The biggest challenge with increases in enrollment, especially among part-time students, is the need to provide student support services, understanding that community college students represent the most at-risk populations overall in higher education.

Next, Dr. Dalpe discussed the WNC service area, which includes 12,000 square miles and 6 counties. WNC has three campuses and a total of 15 building. He reminded the Committee that nationally the intent of community colleges was that no population would be less than 25 miles from a college. That is not possible in Nevada, but the 164 full-time employees at WNC are doing its best to serve as many as possible. We're doing the best we can. Additionally, WNC works with eight school districts, including 15 high schools and 5 charter schools. WNC offers prison education.

Dr. Dalpe presented a funding breakdown: WNC receives approximately 70 percent of its funding from state appropriations. WNC allocates 55 percent of its total funding to instruction. Based on questions posed to other presidents, Dr. Dalpe stated that WNC's utilities have gone up 45 percent in the last couple of years. Additionally, WNC pays the second highest earthquake insurance, because the Carson campus is located 100 feet from a fault line. Other areas have emerged as a concern, for example safety. These areas must be funded out of existing funding, unless other allocations or funding sources become available for things related to campus safety, campus infrastructure, deferred maintenance, ADA accommodations.

Dr. Dalpe stated that it is important to do what's right for community colleges and for all of higher education in Nevada. The current funding formula includes a research function for universities, which is reflective of the R1 status and specifically the research they conduct. That formula driver is not a core part of the mission of a community college. This demonstrates a mechanism for including mission in the funding formula, targeting wrap around services for at-risk populations and part-time students.

Dr. Dalpe indicated that he would like to have funding allocated more frequently than every two years. He also recommended shifting from a funding formula based on previous enrollments to something that contemplates future anticipated enrollments, as well as establishing a weighted student credit hour value that adjusts with inflation. Dr. Dalpe also recommended using a rolling average for funding distribution and a hold harmless mechanism, so institution funding does not fall further behind as enrollment fluctuates. He pointed out that the Performance Pool is not a true performance pool. WNC is at 114 percent of its metrics, but it only receives 100 percent of its 20 percent carve out. The Performance Pool should become a true performance pool, that incentivizes performance. Dr. Dalpe stated that he realized that having a separate line item for

the Performance Pool could make it subject to adjustment when the state is facing troubling times, but that could serve to protect base funding.

Concerning the Small Institution Factor, Dr. Dalpe indicated he would like to have something included that recognizes the minimum infrastructure. The Small Institution Factor should be based more on head count than weighted student credit hours. Weighted student credit hours are not reflective of the other programs offered by community colleges and the students seeking support services. Ultimately, he is recommending that the Small Institution Factor consider head count, based possibly a 3,000 tier and a 5,000 tier.

Dr. Dalpe stated that there is nothing in the current funding formula for summer funding, with the exception of nursing. WNC can run operations all year, but they don't due to the absence of state funding for the summer. Summer funding would allow WNC to maximize its facilities and keep things going. Funding is also needed for noncredit courses. Businesses are wanting people who can do certain skills, regardless of whether that training generates academic credits. Lastly, dual enrollment and waivers present a financial challenge. Much of the enrollment increase at WNC is attributed to dual enrollment. Because dual enrollment is discounted, WNC is not receiving the full amount of registration fees to help support the added enrollment. When the loss of funding is added to the loss of funding for waivers, WNC is losing approximately \$1.4 million per year. If there were a mechanism to recover the funds lost through these discounts, it would be helpful.

Dr. Dalpe stated that the current funding formula does not fund withdrawal grades, or W grades. Often, students withdraw from courses in the tenth week of the semester, which means they have had a seat in class and access to resources. Access to resources and remedial work as essential to retaining the student moving forward. If W grades were included in the funding formula, WNC would have received an additional \$500,000 in funding last year. Other schools would have benefited as well.

Ms. Williams indicated that she had three questions for Dr. Dalpe: are statistics related to students dropping out due to a lack of wraparound services and what does it cost to provide those services and is WNC providing those services directly or using a third party or referral? And, to what degree are those gifts included in your presentation from the gigafactory and mines that are in the area where I would assume most of their workforce is being educated? And do you have a breakdown of Hispanic students who may also be Native American that are reflected in underrepresentation in that area, as well as those other two minority groups, Asians and Blacks, because all together it's 7 percent. Dr. Dalpe stated that referrals for wraparound services would include social services, housing support, unemployment, and insurance. The wraparound services provided by the institution include counseling, advising, tutoring, and library mechanisms, as well as the student government association, which works to keep students engaged. Some of student events are funded by student fees, but others are funded from other sources. Dr. Dalpe continued, stating that data collection on students who drop out is very tricky because students may not want to even admit they dropped out. A number of times students have just disappeared. WNC did a stop out campaign, during which students were asked why they dropped out or decided not to continue. This helped WNC understand if students finished a class and decided not to return, or if they could not find a class that fit into their schedule. That

insight helped WNC staff determine if additional academic advising was needed or if course schedules needed to be less traditional to better accommodate student schedules. Dr. Dalpe stated that he could not provide an exact number for how many students dropped out or what that may be costing the institution. He could specifically address the loss of funding attributed to withdrawals, which represents a loss approximately \$540,000. Dr. Dalpe continued, discussing student needs and strategies used by WNC to meet those needs. Donor funding supports the scholarship fund that helps students get into classes, take the classes, but, more importantly, finish their education, whether it's one class, two classes, 30 credit certificates, or 60 credit degrees. Scholarships help students compete program without incurring a lot of debt. Dr. Dalpe then addressed non-state support for WNC, noting that all institutions have funding from the Pennington Foundation. Additionally, WNC has received funding from the Redfield Foundation, private organizations, the Governor's Office of Economic Development. WNC recently paired money from GOED with money from Tesla, the Pennington Foundation and Wells Fargo. Funds were used to build a mobile classroom, which was about a \$900,000 project, which can be used to deploy a mobile manufacturing classroom into rural spaces and at the prison and high schools. Dr. Dalpe confirmed that WNC does collaborate with area mines. He also stated that some contributions result from access to space, which is the case with Naval Air Station Fallon, which provides classroom space to allow on-site training programs. Dr. Dalpe states that WNC has a robust Latino leadership academy, which was one of the three pillars of its under representative group reach out that was provided through a state appropriation and has since ended. WNC is 31 percent Hispanic Latino, which puts it on the threshold for a Hispanic Serving Institution (HSI). WNC is a Hispanic serving institution and a minority serving institution. Forty-four percent of WNC students are students of color. In order to drill down into the other category, those reporting two or more, it would be necessary to analyze the data more closely. That data is self-reported by students, and they may select the option or options that they feel best describes them.

Ms. Williams asked for clarification on the selection of race by students, specifically how is race accounted for. Students could be White Hispanic, Black Hispanic, or Asian Hispanic if they're Filipino and Latino. She elaborated that she was particularly interested because WNC's service area includes seven different Native American colonies and communities. Dr. Dalpe agreed to request additional data to address Ms. Williams questions.

Regent Brooks share some of his observations with the Committee. He stated that if the funding formula is being updated, then it is worthwhile to consider mission differentiation in the formula. He believed that information could best be conveyed by the institutions to the Board. He also stated that the funding formula should consider students who are part time and need full time resources. He also recommended that the Committee look at competition for students across institutions, especially around dual enrollment. He expressed his hope that future Board agendas would include some of these topics, so the Board and Committee could work together, in a parallel fashion. Vice Chair Charlton responded that a presentation is planned for the June meeting to discuss mission differential and service region, in response to the Board's request.

Senator Buck asked Dr. Dalpe if he had a specific recommendation for funding withdrawals – did he envision full funding or a percentage of funding. Dr. Dalpe responded that he would recommend funding of at least 50 percent, if not full funding.

Assemblyman Gray asked how WNC's large service area impacted costs compared to other institutions. Dr. Dalpe responded the large service area does impact costs. WNC has one facility director, who serves three campuses that are minimum 40 minutes apart. He added that as WNC continues to grow as an institution, it is important to add more pieces that address how facilities are maintained. Dr. Dalpe stated that WNC will not be requesting funding for new buildings during the next legislative session. Thirty percent of WNC courses are taught online; 40 percent are high school students that are on or off campus sometimes but they're in their high school. Dr. Dalpe stated that his primary concern is taking care of the existing buildings through deferred maintenance. WNC has an estimated \$22 million in deferred maintenance costs, which is \$7 million more than NSHE receives from the state through the HECC/SHECC allocation. Dr. Dalpe suggested that including a rural factor, of 50 percent, into the funding formula may be a way to address the financial challenges of having a large service area. He believed other states are doing something similar, which Nevada could mirror.

Assemblyman Gray if there is a benchmark, such as 23 and Me, that could confirm a person's identity, rather than relying on them to self-select. Dr. Dalpe responded that the information collected on the application for admission is reliant on student responses and it is voluntary information to provide.

Assemblyman Gray asked if WNC would ever question a student's response to these questions noting that many people are learning that their race and ethnicity are not what they thought after participating in genetic testing. Dr. Dalpe indicated that WNC does not screen or validate the information included on the application form. That data is used to assist students to access scholarships that may target a certain group.

Chair Hardesty stated that he felt Dr. Hilgersom and Dr. Dalpe may have felt rushed for time. He offered that if either had additional information they wished to share with the Committee, they should do so through the Committee's staff and/or him. He then extended that offer to all presidents. Chair Hardesty also indicated that presidents may be asked to present to the Committee again once the Committee has reviewed the presidents' specific recommendations to align the funding formula with institutions' missions.

Dr. Dalpe offered that as the representative of the Council of Presidents, he would be happy to vet information during the Council's meetings and report back to the Committee. Chair Hardesty indicated that he had already suggested to staff that he would like to attend one of those meetings himself.

The meeting recessed at 12:50 p.m. and reconvened at 1:21 p.m. with all members present except Ms. Betsy Fretwell, Regent Byron Brooks and Mr. Tony Sanchez.

5. Information Only - Self-Supporting Accounts: Practices in Other States

Ms. Martha Snyder, HCM Strategists introduced the agenda item, noting that she is joined by William Carol, Director of HCM Strategists and Nate Johnson who is senior affiliate with HCM Strategists and Principal at Post-Secondary Analytics. Mr. Johnson will lead the presentation on the self-supporting accounts.

Mr. Johnson noted that the agenda item is intended to provide an outside perspective on self-supporting accounts, first noting that not every state has a category that called “self-supporting” accounts. Generally, these are the accounts within the state-supported budget that have a specific revenue source and expenditure purpose but that are not part of the core general revenue and expenditure fund. It's a specific classification that is grounded in Nevada state law and practice, and there's some overlap with what other states do, but it is a very Nevada-oriented category.

The category does not include some things that in kind of the common English language sense of the word would be considered self-supported like auxiliaries, dormitories and housing, sponsored research, which is supported through operating funds usually from the federal government, sometimes from other places. Further, the self-supporting category does not include fees that have specific legal restrictions attached to them in Nevada law or NSHE Board policy. These accounts are used internally by institutions to manage budgets for specific purposes. The legislative audit noted there are several thousand accounts across the institutions and across years that were reviewed in the audit.

Mr. Johnson noted that in fiscal year 2022, there were 5,808 programs that were listed as self-supporting accounts. And these items range from accounts that were under \$10 to several million dollars. There is a new board policy concerning scrutinizing only those that come over a certain threshold [\$250,000], which makes sense with that scale of the number of accounts and the variations in size.

Mr. Johnson noted that he looked at the database from fiscal year 2022 of self-supporting accounts and also the non-self-supporting accounts. There were 20,000 in total of which 5,800 or so were in the category that were subject to the legislative audit. Some of them are student fee-related like the summer session revenues and that are not included in the funding formula. There are fees for certain kinds of educational assessments. There are a couple of categories for library fines. Others have different revenue sources that aren't related to students, and these vary widely from clinical patient care revenues that are used to fund medical school faculty as well as some other faculty in areas where the faculty are practitioners as well as professor, which is common for medical school faculty. Further, it can include things like ticket sales. For example, if there is a performance, art exhibit, or academic conference, an account can be set up for that type of activity. Mr. Johnson explained that facilities rental and faculty start-up packages is another area of self-supporting activity that is common. A chemistry professor may receive a certain amount of money that they can spend over a given period of time, which might be several years, and they have discretion over how they can use that to set up their lab, travel to conferences, things like that.

Mr. Johnson noted that the legislative audit had no findings of fraud or use of funds that were contrary to state or student interests. The findings related to not being able to track the way all the funds were used or transferred across accounts. He also noted cases where funds being used from one account were designated to a different purpose. There were 13 audit recommendations, and for the purpose of his presentation, Mr. Johnson grouped the recommendations into categories. The findings that related to transfers among state-supported and self-supporting

accounts were 1 to 3, 5, 7, 11 and 13. The policies adopted by the Board addressed these recommendations. NSHE clarified which are the transactions of concern, and documentation practices, and Mr. Viton previously presented some of the changes related to this. These changes will make it easier to see that the funds are being used consistent with the intent of the legislature. The new reporting process does require a new report on fund transfers, and that is supposed to be initiated at the central level for campus review.

Mr. Johnson noted that audit recommendations 4, 6, 8 and 12 were specifically about student fees. He explained that is an area where the Board might have different kinds of strategic concerns as well as just fiscal or compliance concerns, and it's worth thinking about those as a separate category. The Board has revised policies that are making the fee definitions more consistent with additional reporting requirements. Lastly, recommendations 9 and 10 were about reserve and contingency accounts to clarify which ones were being used as reserve accounts.

Mr. Johnson noted his initial observations on the reporting aspect is that there are a lot of different functions included in the self-supporting accounts category. Accounts can be grouped differently for the purpose of either having different kinds of strategic and policy discussions or different kinds of reports. NSHE can change or redivide reports as you see fit.

He noted that there are other important non-appropriated funds that are of interest, sponsored research, auxiliaries, for example, and those may be another area that can be grouped differently. Mr. Johnson questioned whether the Board, the legislature and the public as well as the institutions themselves have adequate insight into the accounts and how they're being used. And you certainly have an interest in that. He noted that transparency doesn't always mean just being able to see every transaction. Seeing every transaction is often not useful or clear.

Mr. Johnson explained that it is important to think not just about the compliance and transparency aspect, but about whether institutions have the flexibility that they need to manage their accounts in the best interests of students, the institutions and the state. He noted that sometimes there can be a cost in terms of regulation, compliance, having a lot of reporting, having a lot of different fund categories.

Referring to the strategic context of different budgets for different purposes, Mr. Johnson noted that formula funding runs under \$500 million a year, typically. That is clearly where there is the most direct control and interest as it is expected to function as a core source of funding for the institutions, but it's only a subset of the overall state appropriation. The legislature and the Board have some interest in monitoring and ensuring that that the state appropriation [\$639 million] (outside of the funding formula) is driving the kinds of institutional outcomes and processes that are desired. The state operating budget, which includes the self-supporting accounts as well as other activity is another \$400 million or so of funds that are not appropriated by the legislature, but where there are policy interests in affordability in the interests of your students not having excessive fees that are being used for the things that they're supposed to be used for. Finally, total reported revenue is approximately \$2.2 billion in fiscal year 2022. That includes activity that is not in the state operating budget, like the sponsored research and the auxiliary budgets and other things.

Mr. Johnson continued by noting that tuition and fees is the next part of the core budget revenues, followed by federal grants, a small amount of private and local grants, the sales and services, and auxiliaries such as housing and dormitories. The main expenditure categories include instruction, student services, research, public service, academic support, institutional support and auxiliaries.

He noted that he took an initial look at some of the states that have a structure similar to Nevada for some ideas of things that you could look into further. There are not many states like Nevada that have both a coordinating function for all institutions, two-year and four-year, as well as a governing function. None of Nevada's neighboring states have a board structure like Nevada. The closest examples are Hawaii, which is smaller, and Georgia, which is bigger, and New York, which is divided in two but each one of them does kind of have that structure, so the City University of New York. These are the Boards that are responsible for both system level, community college, university alignment as well as individual institution governance.

Mr. Johnson noted that everyone has policies related to the use of restricted funds. Sometimes they're about a specific fund, sometimes they're about a category of funds. He explained that Hawaii has a clear quarterly expenditures and transfers report. The City University of New York has a matrix. This kind of matrix is useful, just in terms of showing what sources of funds can be used to pay for what kinds of expenses and what can't.

Mr. Johnson continued, providing information on student fees. He explained that Nevada is low both on tuition and fees, both in terms of the number of fees, which is average, but the amount for tuition and fees is lower than average across the country. Georgia has more fees than Nevada, but in terms of practices to consider, Georgia did eliminate one fee last year. Hawaii has the simplest and lowest fees. He noted that it is worth asking whether Nevada has any fees that could be eliminated or combined, both for simplicity-sake and for making the bills to students more transparent.

When considering average fees and average tuition across states, Mr. Johnson noted there's not really any standard in terms of how institutions balance tuition and fees. There are some institutions, Massachusetts used to be worse than it is now, it used to have almost all fees and no tuition, which made policy discussions confusing when you talked about tuition increases and they'd say, well, we haven't raised tuition for years, but they're highest of course on the average fees.

Mr. Johnson concluded his presentation with a review of Hawaii Community College tuition and fees where there is a per credit tuition fee and then there is a small student activity and student government fee only. Finally, he noted, there are a couple of the directions that the Committee could go with analysis of self-supporting accounts, student fees, but he wanted to understand from the Committee what they thought would be helpful in terms of looking at other states' practices or which kinds of accounts and fees are of most interest.

Chairman Hardesty requested a list of all fees charged to students. Mr. Viton noted that the Board has a published list in the NSHE Procedure and Guidelines Manual of all the fees that can be summarized for the Committee's use.

Chairman Hardesty explained that in September the Board of Regents responded to the audit and indicated that they would follow the recommendations contained in the audit. That was after the Committee was charged with its responsibility. He noted that at the time that the Committee was formed, there might have been an idea that there needed to be some input from the Committee that would help assist the regents in how to address the audit and/or perhaps some of these other areas that Mr. Johnson is talking about. He stated that many of the issues appear to be issues that the Board should be debating rather than the Committee because they are policy questions. He then asked the Committee if there is a need to do any more on the topic of self-supporting accounts.

In response to the comments of the chairman, Vice Chair Charlton noted that the System appreciated the legislative audit and the recommendations that came forward. She explained that in working with the Board, NSHE made some significant improvements in NSHE policies and as the System moves forward with the additional reporting requirements this will be demonstrated. She then asked Mr. Johnson if there are any specific recommendations that he saw in his analysis of how other states may be reporting the revenues and expenditures specific from those self-supporting accounts that this Committee needs to consider as a recommendation.

Mr. Johnson noted that his only recommendation would be that NSHE group the accounts in more substantive ways than self-supporting accounts so that you can think about them in separate categories, whether that's along the lines of what is in that City University of New York matrix where they show which funds can be used for which purposes, or some of the other states.

Mr. Christenson indicated that he agreed with the Chairman's recommendation and further suggested that in the Committee's final report it consider some of these other things but the Committee's is well defined. He did not see getting into this area as part of the Committee's charge.

Chairman Hardesty asked Mr. Christenson if he would support an idea that the Committee look at these topics and we pass it along to the Board.

Mr. Christenson indicated he agreed with that approach.

Mr. Kyle Dalpe indicated that the Committee is looking at the funding formula, which is the state funding piece and self-supporting accounts is non-state funding. He indicated that this issue can be handled at the campus level, noting a Board policy on the approval of fees that are , \$50 or less. Fees over \$50 go to the Board of Regents once a year. He explained that it requires considerable planning to implement or change a fee because we do vet it at the campus through our college councils, through our governance groups. He noted WNC, and any other institution, would never put forward a fee without talking to students, faculty and staff. We use the shared governance process. By the time it a fee reaches the Board of Regents it has been vetted and we feel good about it for the non-state fees.

Dr. Dalpe noted that the fee discussion has a lot to do with offsetting or supporting activities because there's not enough on the revenue side. In the overall discussion of funding, revenue

considerations tend to drive the fees because there's a short on the revenue side. As a result, the institutions have to put fees in place to support the desired activity. Further, he noted that state funding for higher education in this state is unique. The other two states he worked in, Texas and Arizona, had local, county fees or district fees, and so the tiering of the tuition was in district, in state, out of state. There was a county assessment with a local governing Board, and you noted we're unique by having a state Board. NSHE's state allocation is -- the portion from the state where other states, there would be a state allocation, percentage wise might be less but there's also that local funding piece which could be moved up and down, similar to gas prices in our counties where there could be an additional tax or levy on properties. That's the piece that maybe is not as consistent from Nevada to other states.

Mr. Johnson responded noting that on the question of local appropriations or support, that's something that is less than 50 percent of the states have local funding sources. He explained that local funding is not necessarily the norm. Nevada's fairly typical in not having local support, although there are states that do. There are a lot of challenges with local support, often having to do with the different levels of property tax -- or property, you know, taxable property base in different communities. He noted it is not a practice he would recommend.

Mr. Johnson continued, stating that as far as the student fees are concerned, he did not mean to suggest that anything that the fees were being used for wasn't necessary or appropriate. Rather, it's a question of, if you have to raise a thousand dollars in revenue from students, do you do it by charging them a thousand dollars for one category and saying, this is our comprehensive tuition and fee amount, or do you break it into 15 different categories and then say, these are all the activities and all of our expenses and we're going to bill you separately for each of them. You would not be able to just eliminate a fee without coming up with an alternative revenue source or incorporating it in your larger tuition charge or some similar approach.

Dr. Dalpe responded indicating that he was not insinuating that. He noted he has a child who I get the fee and it's a long list. He noted he tells his child that they better be using the fitness center because they are paying for it and should not be joining the other gym.

Further, Dr. Dalpe asked if the state funding that NSHE is receiving equitable to a state where a college may be receiving local and state funding or is there a shortfall on one side or the other?

Regent Goodman noted that NSHE has taken the legislative audit very seriously and have addressed it. She stated that she believes it is a good exercise to review best practices and to just see how we can do better. Finally, although it was pointed out that Nevada is unique, there is some real advantage to being a system and to being able to create those pathways from the two-year to the four-year institution and to make sure that NSHE is providing the best service for our students and for the citizens of our state.

Dr. Peter Reed noted that Mr. Johnson said Nevada's state funding is higher than most other states and asked how he was defining that and how it's operationalized in this, particularly given the comments about local versus state support and just what.

Mr. Johnson said he noted that as a proportion of the total funding, not as in absolute terms, so on a per student basis he's not sure, but as a proportion of your institutions' total budgets, it is higher. As such Nevada has proportionally high funding from the state and as low tuition and fees.

Regent Carol DeCarlo noted that in the November/December 2023 trustee magazine that is published by the Association of Governing Boards is an article on governing and hiring for "system-ness" and it also talks about revenue, resources, planning and collaboration.

Mr. Combs indicated he sees the potential for getting heavily involved in this topic area which may send the Committee down a "rabbit hole" that would be time-consuming and would also get into issues that are probably more appropriately handled by the Board of Regents. However, earlier in the meeting, under agenda item #3, the Committee requested follow-up information on both the question of the registration fee revenue being partially in state-supported accounts as opposed to non-state-supported accounts and then also having to do with the cost recovery revenue. That information could still be useful to the Committee because it's at a much broader level. Further, concerning the legislative audit, Mr. Combs noted that he is glad the Board of Regents accepted all the recommendations, but one of the things that audit found was that there was some money that should have reverted to the general fund in the year that did not revert because of the practices at the time. He further noted that the amount of registration fees that goes to the non-state-supported accounts and how that is determined should be reviewed by the Committee as it related to the funding formula. He explained that may be the appropriate level of detail for the Committee and he would not recommend getting in to any deeper level of detail.

6. Information Only -Evaluation of NSHE Funding Formula –

Ms. Martha Snyder opened the agenda item noting she is a partner with HCM Strategists (HCM), the vendor selected to support the Committee's work, and she was joined by Will Carroll, Director at HCM, and Nate Johnson, Senior Affiliate for HCM and principal for post-secondary analytics. She noted that HCM's work will be focused going forward on assessing and incorporating the feedback provided from stakeholder interviews that HCM conducted. To date HCM completed 23 of our 31 interviews and most of the remaining interviews scheduled. HCM will also be providing and engaging on the summary analysis of the institution's recommendations submitted to NSHE and the Chairman. For the purposes of today's discussion, HCM will be assessing Nevada's current funding formula, putting that in the context of common and best practices in state post-secondary finance, as well as looking at issues around outcomes-based funding, particularly focusing on the performance pool and addressing issues of innovation which were a major discussion at February 12, 2024, meeting of the Committee.

Mr. Will Carroll began by noting that HCM was asked to answer the questions of whether the current system of allocating funding through the formula equitable and fair and is it effective at improving student outcomes. He noted there are a number of ways to answer those questions. First, is the current system of allocating funding aligned to state goals? Second, is it student centered by enabling and incentivizing success of all students? Further, does it align with and therefore support the main drivers of costs at all institutions?

Mr. Carroll noted that in Nevada, the main driver of cost that is represented in the funding formula is the cost of instruction and particularly the student credit hour. And it's mostly a measure of the cost of instruction, the weights accounting for variation in that costs by different program and different level, but when the formula is built around one primary cost driver that allocation should be reviewed in how it affects other fair and equitable characteristics of matters like student needs, student characteristics, low income, adult, under-represented minority, and of course the FTE versus headcount question which has been mentioned by the presidents on several times. Mr. Carroll explained that HCM pulled data to look at how the funding is allocated along those lines as another cost driver that institutions face.

Using national level data from the Integrated Postsecondary Education Data System, Mr. Carroll presented revenue per FTE (full-time equivalent). He noted that it is based on total revenue received by the institutions and includes state appropriations and grants, tuitional and fees, federal grants, private/local grants, gifts, sales and services, and auxiliaries. He noted it is not an exact much for spending pursuant but it is a good proxy. Not all of the revenue is spent directly on students, especially at the R1 institutions. Some of it is spent on research activities, but it illustrates the range and total resources available for institutions to spend. Mr. Carroll noted there is variation in the state appropriations and grants per FTE, and there's much larger variation in the tuition and fees that is available to institutions, particularly between UNR and UNLV.

Next, using Nevada's funding formula data and the student credit hours and the FTE and the headcount numbers provided by the state, the analysis looked at how funding per resident FTE breaks down by institution. Referring to slide number 7, using Nevada residents, FTE and headcount, indicating the variation by institution. Further, the variation increases when consider it by headcount and not just FTE. For FTE, the lowest funded institution, Nevada State College, at \$5800 per FTE, and the highest funded, UNR, at a little over \$10,000 per FTE. The highest funded school per FTE receives 75 percent more funding than the lowest. When considering headcount, UNR's \$7500 in state funding per headcount is 280 percent larger than CSN's \$2,600 per headcount figure. Mr. Carroll explained that FTE and headcount are both important drivers of cost at an institution. FTE does a good job of representing the instructional load for an institution and the faculty, but there are fixed costs with every student, so those part-time students as represented by headcount have lots of costs that come regardless of how many courses they take.

Mr. Carroll continued explaining that HCM also looked at certain student characteristics, including adult, under-represented minority, low income using that national data considering institutional revenues per FTE by student population. The data is not saying that the state is providing a certain amount of dollars for every under-represented minority student or non-under-represented minority student, rather it indicates what is the average revenue at institutions that the typical Pell student attends, what is the average revenue at an institution that typical under-represented minority attends, so you can see the access that they have or the sort of additional supports that they receive, how that distributional impact varies by student characteristic. He explained that non-under-represented minority students have a little bit higher state appropriations and grants than under-represented minority students, and Pell students have a slightly higher state appropriations and grants revenue than non-Pell students.

Mr. Carroll, referring to slide number 9, indicated that the funding provided through the funding formula using the same breakdown by student type indicates that the typical under-represented minority student is attending an institution that receives \$3400 in state funding formula revenue on average, the typical non-under-represented minority student receives -- attends an institution that receives \$3600 in state funding formula revenue. Pell students attend institutions receiving more in funding formula revenue than non-Pell students. He noted the gap between the adult and non-adult as striking. He noted that this is in some part a reflection of attendance patterns, that adults are more likely to attend community colleges, more likely to be part-time, and so funding formula sort of reflects some of that. It is important context to think about what the distributional impact is of a formula that is pretty much entirely based on that weighted student credit hour; it can help inform discussions about things like what is needed to close attainment gaps and workforce gaps in the state and what are also some. The Committee has heard conversation about weighting for student characteristics and enrollment and part-time as different recommendations that have surfaced. This data provides context for some of those discussions.

The presentation continued with Mr. Johnson providing background on cost studies used to inform the weighted student credit hour calculation in the Nevada formula as well as elsewhere. Mr. Johnson noted that he has been working on cost studies in one form or another for the last 25 years at the state level, at institution level, and as a consultant in a variety of states. The first cost study conducted was in 1910. He noted the methodology for cost studies has not changed that much since that time. That cost study was done by an automotive engineer who was brought in by the Carnegie Foundation and he looked at physics departments initially. Before that point there was no standard way of talking about quantities and costs of instruction in higher education.

The goal was to quantify the amounts of instruction. From that came the idea of the credit hour in relation to faculty time, compensation and indirect costs. This method became more common and more popular with the availability of mainframe computing in the 1970s and organizations like NCHEMS and MGT of America helped states create programs that would evaluate all of their programs by these common measures of costs and credit hours.

Mr. Johnson noted that cost studies typically differentiate by level, lower, upper, graduate, and by discipline, like physics and business. These differences can be translated as weights, as in the case of Texas. Weights are determined by using one discipline or an average as the baseline and then saying another discipline is two times that or three times that or half that amount. Using Florida as an example, it shows the range of discipline costs relative to business weighted as the baseline. For example, business is one and everything else is weighted relative to business ranging from a high over two and a half in life sciences to a low in homeland security and law enforcement of less than one.

He explained that currently there are a number of states that have done cost studies in the last 10 years, including Florida, Texas, Illinois, Minnesota, the SUNY system, and Ohio. The most common variant of that is the Delaware cost study. Cost studies have become less important and deemphasized in states as states have focused on other things and also as the state's share of the

cost of higher education has declined. It is more important to be able to account for these kinds of variations if you're paying 100 percent of all those variations as opposed to when the state is a minority funder, as it has become the case in a lot of states.

Mr. Johnson continued, noting that there are a number of practical limitations to cost studies, as well as conceptual limitations. Cost studies are not well suited to complicated, large, modern universities, as they are to simpler institutions. He noted that it is difficult in a large research university to sort out the relationships among the different disciplines, to sort out the differences between your research and your instructional costs because it is often faculty doing both at the same time, and graduate and undergraduate is also hard to sort out if you have graduate students who are teaching undergraduate students who are both kind of students and instructors at the same time. Those all tend to be confounding practical limitations to doing cost studies. In addition, discipline boundaries have been changing rapidly. Interdisciplinary work is becoming more common, so the whole idea of what is biology or what is history separated from other things is not the same as it used to be – making cost studies difficult.

Mr. Johnson noted that the conceptual limitations which may be more important are that the historical costs are not necessarily the adequate or appropriate costs. Cost studies tend to be retrospective-looking studies and will tell you what has been spent on in the past, not whether that was the right amount or the necessary amount for a given discipline or level or institution. He noted that cost studies are not a substitute for a strategy. A cost study can't tell you which programs are more important strategically to the state or more valuable to a student or to employers. Further, cost studies can't tell you who should pay for identified cost differences across programs if there are differences among programs. It doesn't necessarily have to be the state unless the state is the only one paying for the higher education costs. Cost studies can also reproduce historical funding inequities since they are simply showing what has been spent in the past.

Mr. Johnson explained that there are some alternatives or other ways of thinking about weights in the context of a funding formula. Looking at higher cost programs by race and ethnicity, for example, you'll see that Black and Latino students are less likely to graduate from higher cost programs than -- as a proportion of the total number of degrees than others.

He noted that you can always go on an unweighted basis whether it's student credit hours or student headcount. That's not to say that the costs aren't different. The state can take the first cut and let the cost differences be an issue for the institution to balance, since every institution has some mix of higher and lower cost programs, and always needs to cross-subsidize or create a balance between them, or to pass the costs along to the students. If students pay more, especially as they do in graduate programs which charge more for higher cost programs than lower cost programs, increasingly that's true with undergraduate programs as well, you can have weights based on student characteristics.

Mr. Johnson noted that it costs more to educate certain kinds of students based on their level of high school preparation or their age or other factors that can drive what it costs to educate a student, although that's not typically how we've done cost studies. You can also weight based on priority rather than cost. What are the disciplines or degrees or types of credentials that are most

important to the state as the funder and weight based on those. Weights tend to be most useful where you have something specific that you want to do – weights then denote priority or importance. For example, if you want more nurses, you can do a cost analysis that will help you work out what it would cost to grow a nursing program, to increase enrollments in that. Or if you want more Bachelor's degrees in general or if you want more engineers, but any specific question is going to allow you to take into account all the other available revenues for that, the considerations of supply and demand and class size going forward and come up with something more accurate than if you try to analyze all the costs for all the programs at once.

Ms. Snyder then continued the presentation, indicating that we're going to get into some of the principles of a strong post-secondary finance system, some of which are relevant to the charge of the Committee. The first two principles are overarching and not focused on the particular metrics or mechanics of a funding formula, but establishing principles and a broader vision for higher education that can guide funding decisions as well as other policy priorities. The two principles include: 1.) clearly established goals and objectives for higher education that are commonly understood across stakeholders; and 2) adequate level of resources required to deliver quality education. These often include goals around attainment, closing gaps in access and outcomes for different student groups, and then certainly increasingly aligning to and supporting the state's workforce and economic needs, as well as enhancing institutional missions. States are using these goals increasingly not only to guide the particular elements of a funding formula, which is the primary focus of this committee, but also to inform some level of state commitment to funding higher education.

Ms. Snyder explained that Nevada falls short on these two framing principles, and while the state had an attainment goal, it expired in 2020 and we know the new higher education specific goal and strategic plan have not been fully formalized, though certainly there are principles advanced by the governor. She noted that through its interviews, HCM is asking for perspective on what the priorities are for higher education, but obviously it's not the same as kind of a broader, more cohesive process. Additionally, the current funding model is most of all an allocation model, so it does inform the request but ultimately is used to allocate whatever resources are appropriated, not defining necessarily a specific level of funding.

Ms. Snyder noted that while these concepts have been raised in several interviews, it's important to note the scope of this work is really focused on the funding formula itself, how to allocate state resources, and will not appropriately address these issues given the time that we have and certainly the framing of this particular committee.

She continued noting that the next two principles are more relevant to the charge of the Committee, really looking at addressing the components or mechanics and the metrics of a funding formula that can be used to inform the allocation of state funding. First and foremost is a funding system that includes a minimum level of funding support or fixed cost to support fixed costs, oftentimes the state approaches are some sort of guaranteed minimum for operations and maintenance (O&M), and sometimes this is adjusted for the size of the school. The Committee heard issues around the current way that Nevada includes this kind of minimum support, primarily through the small institution factor, based on the student credit hours, to ensure a minimum level of funding. There's also the research, O&M adjustment for the R1 institutions,

that can be considered both in operations and maintenance adjustment as well as a reflection of mission.

Ms. Snyder noted the next principle: a funding system that is responsive to changes in the system in both enrollments and outcomes, funding based on a combination of enrollments and outcomes. Increasingly states are shifting from FTE only to include and reflect considerations for headcount. The current Nevada funding model is heavily based on weighted student credit hours, these are tied to enrollment, and the construct of the outcomes-based funding or the performance pool is overall not responsive to changes, again, as has been noted, there are certain institutions that achieve above a hundred percent of their [performance pool] targets, and the funding model does not take those factors into consideration.

Other principles include a funding system that aligns with the state's current needs for a more educated and trained workforce. This is more frequently reflected in some measure of the outcomes that are considered in funding models, having a priority for specific in demand degrees or certificates. Data can be a limiting factor for much more direct workforce metrics. States are trying to get targeted on job placement metrics, run of investment, but data oftentimes is a limiting factor there. The Nevada model currently includes the economic development degrees as a metric within the performance pool, perhaps checking the box at least as a component of the performance pool, and then a funding system that accounts for differing student needs; again, this has been a discussion across the last two meetings.

Increasingly states are integrating adequacy and enrollment components in their funding models to reflect the conversation the Committee is having - the reflection that these students require upfront supports that should be accounted for as students are entering institutions. Nevada does not include any sort of adjustment for student need on the front end of its funding model, particularly in the weighted student credit hours, though it does include completions by under-represented minority and Pell students in the performance pool.

Ms. Snyder summarized that states are increasingly using a combination of funding formulas that balance various considerations of access and outcomes and economic needs. Increasingly these approaches are being adjusted to reflect needs, including some soft adjustment either to the base or enrollment -- weighted enrollment as well as on the outcome side and then certainly states are supplementing certain mission-specific aspects. There are ways states are doing that within the funding formula but certain aspects of that are oftentimes considered outside of the funding formula such as medical schools and research. This is an illustration of breaking best practice or a growing trend, how states are taking this more balanced approach, core costs, operations and maintenance, sometimes there are adjustments within those components to reflect school size, to reflect different types of students being enrolled. Certainly, adjustments for students on both enrollment, headcount and FTE, progression and outcome metrics and then some level of mission differentiation. Breaking down each of the components of Nevada's current funding model, looking at the core costs, we consider this as partially included. There are pre-formula adjustments as they are referred to in the funding formula itself. This includes the small institution factor set aside to account for efficiencies of scale related to fixed costs. This has not been revisited in terms of that \$30 per weighted student credit hour for each weighted student credit hour below 100,000 weighted student credit hours. This does ensure a minimum funding

level of \$3 million per college when you do the math but, again, it has been something that has not been considered or revisited.

Ms. Snyder continued, noting that the research operations and maintenance set-aside, could be considered a mission-specific adjustment but is also an operations and maintenance set-aside that supports the cost for research space at UNLV and UNR specifically and has a calculation of funding research that generates about \$180 to \$310 per FTE. Looking at enrollment, this is included or at least partially included in the student weighted credit hour completions. This is considered at least as a partial enrollment factor. It does include only Nevada resident students and I do know that the -- there was some discussion in the last meeting about, you know, whether or not this provides a disincentive for enrolling out-of-state students. Ms. Snyder explained that state revenue is not the only source of funding or the only source of incentives for enrolling out-of-state students and oftentimes as in the case in Nevada, out of state tuition is higher and certainly provides its own incentive.

She noted that the limitation of directing state support only to in-state residents is actually a very common practice across states, and while there could be desires for a state to support the enrollment of out of state students, if done, we would recommend some consideration of higher tuition that these students pay be factored into that consideration.

The weighted student enrollment, the current funding formula includes adjustment for cost based on discipline and academic level. This supports institutions with higher costs and higher-level disciplines and program mix. These cost adjustments may or may not be aligned to state, economic and workforce needs. They reflect historical costs not necessarily strategically derived based on what the state needs from its economy or workforce. The cost for adjustments for disciplines and academic level are institution centered cost adjustments, but certainly there are also student-centered costs that we consider to be absent from the current funding approach and, again, has been a frequent theme of many of the presentations you've already heard. The colleges that serve higher numbers and proportions of students from underserved backgrounds have higher costs associated with the supports needed to retain and graduate these students and is the rationale for considering these factors. Ms. Snyder explained that there are a couple of ways that these factors can be addressed. It could be included either in the weighted student credit hour adjustment or considered a mission aspect or a mission adjustment.

Ms. Snyder continued noting that there's a few components intended to address mission including the earlier referenced O&M adjustments for research, the mission related to student credit hour weightings that favor institutions with Master's and Doctoral programs, as well as specific components of the performance pool that include specific metrics or specific adjustments or specific weightings across those metrics. She explained that it could be argued or could be considered to include some other mission metrics that maybe are better addressed through already discussed areas, so rather than specifically adding mission differentiation in terms of additional metrics, perhaps accounting for the enrollment of part-time students, including summer enrollments and adjustments to account for the cost of supporting needs from underserved programs, which certainly are central to the mission of all institutions but particularly community colleges and NSU.

Ms. Snyder continued comparing state funding formulas, specifically HCM selected states that have one formula for all of its institutions: Louisiana, Minnesota, New Mexico, and Colorado. She noted Louisiana includes an adjustment for square footage. Minnesota has some sort of facilities, operations and maintenance adjustments. New Mexico and Colorado don't consider operations and maintenance. Across these states, enrollment, the student credit hour is a pretty common feature. FTE and headcount are used in Minnesota as well as Colorado. Similar to Nevada, student-centered weights are considered in Louisiana, Minnesota and Colorado. Mission is a commonly reflected or commonly incorporated feature of each of these funding models, done in a variety of different ways.

Ms. Snyder noted that HCM selected the states that were used for comparison by looking for comparable attributes to Nevada, including low tuition, low state funding per student. By selecting these comparison states, Nevada is actually number 33 in state total funding per FTE. Each of these states that are selected are within that range, with the exception of New Mexico, which has a higher overall state funding per FTE. HCM also ensure that there's kind of a low student share of total costs. And that there's one formula for both the four-year and two-year sectors or at least many of the states that we use as comparison do have only one formula that directs resources to both four-year and two-year sectors. And then, importantly, states that have seen enrollment growth over the past decade.

Chairman Hardesty inquired if there are states that separate the formula between four-year and two-year institutions and what is HCM's view about considering that approach here.

Regent Stephanie Goodman left the meeting at 2:16 p.m.

Ms. Snyder responded by indicating that there are states that have separate four-year and two-year formulas. Most of those states have a much higher and much more significant number of institutions than Nevada has. That is one factor. She noted there are other ways to address mission differentiation and consideration within the existing funding formula without separating it out into two separate funding formulas and many of the recommendations that have been put forward can be done without the need for two separate funding formulas in Nevada. She further explained that one of the states that have separate funding formulas have very different governance systems and have a significant higher number of institutions than what Nevada has.

Chairman Hardesty responded noting his desire to "footnote" the comparisons of states that use different funding formulas for two-year versus four-year institutions based on what he senses are areas of inquiry about attributes that the Committee would consider.

Ms. Snyder continued noting that for the selected states, they note that one of most consistent factors is one funding formula for both sectors. She noted that Montana also has one formula. She noted she will correct the slide: Montana, Oklahoma, Louisiana, New Mexico, Colorado, and Arkansas – one funding formula for 2-year and 4-year sectors.

Ms. Snyder turned the presentation over to Mr. Carroll to discuss the performance pool.

Mr. Carroll indicated that he would spend most of the rest of the time for the presentation digging into outcomes-based funding and the performance pool in particular in three phases. The first is looking through HCM's typology of outcomes-based funding formulas, what are the principles of equality in an outcomes-based funding model, and we'll look at Nevada and some of the comparison states and how they stack up to those principles. The second phase will review Nevada's metrics in particular that are in the performance pool and whether they align with state priorities and lead to an equitable and fair allocation of funds and also how they compare to the other comparison states and the metrics they use and the ways that they weight them. The final phase will consider whether the structure, the way that the performance pool operates incentivizes performance.

Mr. Carroll referenced the HCM typology, which was published in 2020, which evaluated Nevada in 2019. In that evaluation, HCM's typology considered the weighted student credit hour portion of the formula as part of the outcomes-based funding formula. For today's discussion, he differentiated that from talking about just the performance pool itself because it does change a little bit of the assessment. In that initial evaluation, Nevada was considered a Type IV or the highest level of outcomes-based funding formula. When considering just the performance pool, two things change in this chart - one is the funding level.

He explained that the funding level for the assessment of the typology, the threshold for a high level of funding was 25 percent, as we know the performance pool is a 20 percent carve-out from the allocation so that would be more in the moderate range. And the second thing that would change would be the formula driven or target recapture. A formula driven approach to an outcomes-based funding essentially means that -- it works in the way that the weighted student credit hour does now, which is that there's a formula to allocate the dollars out that all institutions are competing for or factored into. The target recapture approach is much more like how the institution-specific performance pools work in Nevada now in that each institution has its own pool of funds that it is competing for and its performance on that does not impact the other institutions' ability to receive their funds from their performance pool. Those are the two things that would change the funding level and the formula driven or targeted recapture.

Mr. Carroll noted that with those changes, the performance pool would fall into a Type III OBF when considered by itself because of those two changes. All the other things reflecting institutional mission, including total degrees, credential completion, under-represented, student success prioritized and implementing for multiple years, would still be true of the performance pool as well. He noted that 31 states are implementing an outcomes-based funding formula in at least one sector: 31 states in the two-year sector, 27 in the four-year sector. About a quarter of outcomes-based funding formulas are in the Type IV category of the HCM typology.

Mr. Carroll explained that when comparing Nevada's performance pool to the comparison states (OK, OR, LA, MT, NV, CO, AR), every state in the comparison is linked to an attainment goal, meaning they're trying to incentivize institutions to produce more graduates, reach that attainment goal. The next principle is base recurring or new funding. Base recurring means funding that will be coming from the base every year. It will not be required to see an increase in State funding in order for any funding to go through the performance pool. Oklahoma is the only state here that relies on new funding to fund its performance-based funding. That's one

reason why the funding level for Oklahoma 's their outcomes-based funding formula is low because they've been cutting higher education more often in the past years than they have been increasing it and as a result have been putting very little put into performance-based funding. In the most recent year Oklahoma's outcomes-based funding was about 2%. Most of the rest of the states in this group are in that 5 to 10 percent range. There are a couple all the way up at 50%, 90%, even 100% that they allocate through their outcomes-based formula.

The next matter is whether the outcomes-based funding model in each state reflects institutional mission. Colorado and Oklahoma are the only states that don't reflect institutional mission in some way in their outcomes-based funding. Nevada's performance pool reference institutional mission. The way that the typology assesses this was whether there are weights by degree type or metrics for research or some other approach to differentiating across types of institutions and their missions. The Committee heard about how the current funding formula may not appropriately differentiate based on mission. There are metrics and ways the formula does get at it in Nevada. Whether it does it appropriately or sufficiently is a question the Committee would want to grapple with.

Mr. Carroll continued noting that the next couple of principles are represented in every comparison state. These principles are essential to having a strong outcomes-based funding, the first one being including total degree or credential completion and just a metric measuring whether there are the number of degrees produced. The second one being underrepresented student success prioritized. That sometimes shows up in separate metrics for degrees awarded to underrepresented populations. Sometimes its weights assigned to those degrees that are earned by those populations. And then, finally, implementing for two or more years, which shows the state's sustained commitment to performance funding over time. Nevada and all the comparison states includes these factors.

Mr. Carroll noted that every state except for one of Oregon sectors has been implementing performance-based funding or outcomes-based funding for a relatively long period of time. The last principle, institutional allocation method, includes three variations. The first is an institution-specific pool which you all are familiar with as the way that the performance pool currently works. There's a set amount that's allocated for each institution, and hitting targets helps them access those funds from that pool. The second variation is relative growth, an approach where it's looking at how much an institution has improved its own metrics and comparing that growth to other institutions' growth over their own baselines. The third variation is the share of outcomes, which is not the growth of your own institution but just the number of outputs you have produced as a share of the entire state's output.

Mr. Carroll noted that the performance pool metrics should be advancing state priorities. Without a set strategic plan or set of goals or priorities, we relied on some of the themes we heard during interviews and some of the conversation from the February meeting to identify things that have jumped out as key priorities around increasing and getting more equitable attainment, preparing a workforce to attract new industries and meet current demand and also creating affordable pathways for students. For Nevada, degrees completed makes up between 40 and 50 percent of the performance pool metrics.

The economic development degrees make up 20 percent, aligning with that priority. Finally, transfer makes up 5 to 10 percent of the metrics depending on the institution. It seemed to be a big priority but is a somewhat small portion of the performance pool. Economic development degrees may be something that the Committee wants to emphasize more so that percentage could be discussed.

Next, HCM looked at the way the metrics are used to ensure equitable and fair allocation. For this aspect of the analysis, HCM looked at making sure that the metrics promote the success of traditionally underrepresented students. Mr. Carroll noted that this is an important thing to do given the possibility of perverse incentives, that research has found without good equity weights, performance-based funding can create. The 40 percent weight for degrees earned by underrepresented minorities certainly does that on the outcomes side. Martha alluded to the fact that there's not anything on the front end for the enrollment of those students, but it does do so on the outcomes-based or performance pool side.

Mr. Carroll explained that total degrees and certificates completed is the most common metric used in outcomes-based funding formulas. The other common ones are weights for priority fields, for priority student populations, and for efficiency, and Nevada checks all those boxes with the different metrics it uses in its performance pool.

Next, Mr. Carroll reviewed some of the common buckets of outcomes-based funding metrics and the national trends, the comparison state examples, and Nevada. On progression, these metrics are included in half of all four-year outcomes-based funding models and three quarters of the two-year sector models. The most common metrics utilized in the comparison states include student earning 15/30 credits, retention rates, and gateway course success. Students that are reaching 15 credits earned, 30 credits earned, these are benchmarks that are research based that are associated with students that hit those benchmarks are more likely to graduate. Retention rate and gateway course success - these metrics typically make up between 10 and 30 percent of states' outcomes-based funding.

In Nevada, the progression metrics are gateway course completions for the two years and transfer from a two-year, we consider it as a progression metric for the 4-year institutions. This is a lower area of emphasis for Nevada compared to some of the other states. There's less emphasis on the progression, so, again, something the Committee could decide to dig into further if there was a desire to put more emphasis on student progression.

Regarding completion, Mr. Carroll explained that completing metrics are used universally in outcomes-based funding formulas. The comparison states, the metrics that are used are degrees awarded, graduation rate, transfer to a 4-year institution, on-time completion, and these typically make up between a third and two-thirds of states' outcomes-based funding formulas. Nevada has a stronger emphasis on completion than most other states with a total close to 70 percent in terms of the amount of the performance pool metrics that are dedicated to completion metrics.

Post-completion metrics are next. These are focused on things like job placement, earnings after completion, and degrees earned in high-demand fields. States are showing more interest in wage and employment related outcomes, especially as more states are linking up with workforce data

systems and their departments of labor or federal datasets. Data availability is the issue. Typically, most states are using a more common approach that we see in those comparison states, which are weights for degrees in those high-demand, high-wage fields. There are two ways states do this. One is like a data-driven approach that you have a workforce board in a state that's identified areas of workforce demand and areas of high-wage jobs. Another is how Nevada has approached the economic demand degrees, which are STEM and health and a couple state priority areas. And these weights -- some states use separate metrics for this. Some states use weights assigned to their credential production. Nevada is pretty much right in the ballpark of that 20 percent for those economic development degrees awarded.

Next, Mr. Carroll addressed the matter of priority population weights in outcomes-based funding models. He noted this is a very common practice in outcomes-based funding models. Over three quarters of models use a metric or weight to support the success of underrepresented student populations. Most of the time that weight is assigned to the completion of a degree. There are a couple of comparison states that assign the weight to retention as well. And the most common populations that are assigned these weights are Pell students, underrepresented minority, adults, academically prepared, and a couple states that use veterans as well in their weighting. The weights range from 5 to 50 percent. Again, Nevada is on the higher end of that scale with a 40 percent weight for Pell students and underrepresented minorities.

Mr. Carroll moved on to the third phase of discussing the extent to which Nevada's structure of its performance pools effectively incentivizes outcomes. The HCM typology for outcomes-based funding emphasizes three principles for this. First, it should be recurring and not just used to allocate new money. If you only allocate it through new funds, too often there are years where it won't come into play at all and there will be years when outcomes don't sort of factor into it. Second, it needs to be large enough to influence institutional behavior. The minimum threshold for that is 5 percent. The final principle is that it should reward continuous improvement and should not cap rewards at a certain goal or threshold, which we've heard a lot about in discussions from the institutions.

Nevada's performance pool funding is recurring. It is a large allocation of funds, but it does not have that continuous improvement incentive built in. Most of these are pretty common. In states, most of the time it's about two-thirds of states check the boxes for these principles. When it comes to the continuous improvement principle, it's very common in the two-year sector. 27 out of 31 states have a design of their funding formula that does reward every additional degree produced, every additional student retained, that sort of thing.

Mr. Carroll noted four different challenges for Nevada's current performance pool with regards to this issue of continuously incentivizing improved outcomes. The first of which is this carve-out structure. It really the maximum benefit to an institution, especially a low-enrollment institution, because it is defined by the amount of weighted student credit hours. It's always going to be a proportion of that. A highly successful small institution will only ever receive the maximum funding allowed by its weighted student credit hour which will be capped by that size. So even one that graduates 100 percent of its students is still limited by enrolling only 1,000 or 2,000 students. The second challenge, the earn-back nature of the performance pool may not seem to drive very much behavior among institutions in our discussions and listening to the

institutional presentations. It appears to be more a source of frustration than any particular effective carrot or stick for institutional behavior. Third, it is structured so institutions do not get anything additional for that additional degree produced above their target.

Finally, the performance pool targets aren't re-baselined. Nevada's in an exceptional position in that its enrollment growth over the past decade prevented this from becoming an issue. But had any Nevada institutions experienced some declines in enrollment over the past decade that we've seen in many other states, that lower baseline of students, while the expected production of outcomes continues to increase, could create this sort of death spiral where an institution misses its targets because its enrollment dropped. Therefore, the institution has less revenue to be able to invest in students and to improve those outcomes or recruit, retain, and graduate students.

Mr. Carroll then moved on to possible alternative ways that Nevada could structure its performance pool to address some of the issues previously discussed. The first would be to shift to a shared outcomes approach. This is where a designated amount of funding is put out and institutions divide that based on share of their total outcomes generated in the state. This could be done by metric. For example, 10 percent of the transfer students, 10 percent of the degrees completed, 10 percent of the economic -- you can divide the pools by the metrics themselves or it can be done as an entirety. But this does absolutely reward improvement beyond 100 percent and it creates more competition between institutions, which we listed as con because a number of institutions expressed concern about creating that direct competition between the institutions. Some does help incentivize behavior, but it also, is a concern for many stakeholders in Nevada. We just wanted to note that half the comparison states that we looked at use this approach to allocating their outcomes-based funding, so it is the most common of approaches in allocating funds.

The second one is the relative growth model. And this is where your institutions that improve more than others get a larger share of funds. The example here is institution A improves its weighted points by 10 percent and the other institutions improve by 0 to 5 percent, therefore institution A will receive a larger share of the performance pool than it did in the previous year. And it creates indirect competition in that you're competing against your own baseline. So, it is specific to your metrics. But it also shows how well you are doing compared to the other institutions that ultimately directs your funding.

If the Committee considers any of these approaches, HCM recommends setting aside performance pool funds before allocating the weighted student credit hour. In doing so you would set aside the 20 percent for the performance pool the same way you currently set aside funds for the small institution factor and O&M. The idea is that in order to ensure it maintains its structure as a base recurring funding pool, which is one of the key principles for outcomes-based funding, it would be taken out before allocated and not on top of at the end.

Mr. Carroll noted that if the committee wanted to stick with the current structure the performance pool, HCM would recommend two possible approaches to address some of the challenges. The first would be rebase lining those individual targets so they are setting reasonable but ambitious levels of improvement for institutions. This prevents the death spiral situation illustrated earlier and sets the goal posts based on where institutions are currently. Second, HCM recommends establishing a separate funding source for exceeding targets. This might be still

having institutional performance pools, but maybe a smaller pool of funding that would be able to be used to allocate for institutions that do go above 100 percent on their metrics.

Next, Mr. Carroll responded to the Committee's request to look at other states that use these institution-specific pools. We identified two. Nevada's approach with institution-specific pools is uncommon. North Carolina UNC System recently implemented a new approach where they have stretch goals that are individualized for each institution across all five metrics in their formula. If an institution meets its stretch goal, your student credit hour gets weighted by an additional 3 percent. So, in a little bit of a way it's the reverse of the way the Nevada formula works. They would then add that factor onto the weighted student credit hour after meeting these metrics. But this approach does not necessarily provide any reward for going above and beyond that stretch goal.

In Montana, the institutions' pools are defined by their share of FTE enrollment, which is similar to the way that the weighted student credit hours in Nevada work. It's based on enrollment size, but they don't weight it for costs and program level. They have a growth target that is 1 percent above the prior year outcomes. They re-baseline it. But, again, that provides no reward for exceeding the target either.

Next, Mr. Carroll noted the Committee asked HCM to look into funding for innovation in other states. We wanted to start by noting that as we were discussing this, that innovation, as described by what we heard from the institutions and see in other states, can appear in a variety of ways. It can be new investment to generate more economic development in the community, can be research, can be industry partnerships, it can be things like a new approach to serving student parents or improving retention or outreach to make sure students finish their degrees. The definition of innovation is important if this is something the Committee wants to pursue.

The second point is that the current funding formula does not prohibit, obviously, use of the funding for innovative practices. The limitation is probably that the total amount of funding, as the Committee heard from institutions, makes it hard to prioritize that. Even if there were something built into the funding formula that was based on innovation, if the use of those funds is still available to fund instruction, student services, et cetera, those priorities are likely to crowd out innovation until sufficient funding reaches a level at which it makes it easier to set aside funds for innovation. Just building innovation into a funding formula does not necessarily mean there will be more funding for innovation. It just means it will be allocated differently.

Mr. Carroll explained that HCM did not identify other states that have some version of this in their funding formulas. HCM did find examples of states that fund it through other mechanisms; namely, line-item appropriations. I think Nevada has used enhancement funds for these sorts of one-time purposes or strategic investments. But we see that in a number of ways.

Mr. Carroll continued that there are a number of states, including New Jersey that provided a pot of funding for student success incentive funding grants. Similarly, institutions could propose ways they would use some of that funding to improve their student success retention degree completion, et cetera. But HCM's recommendation would be focusing on what's the goal of

supporting innovation, what do you mean by innovation, and what would the goal of that funding be.

Mr. Carroll explained that the presentation started by looking at the defining priorities and goals. A State goal or priority to align the metrics in your funding formulas is important. Determining what it is the state is trying to achieve with this funding formula is a key step. We talked about enrollment being a key piece of a balanced funding formula approach. Nevada does not have something that's focused on the enrollment side. It's got the completion of a course, but could certainly consider looking at something like an FTE or headcount -- and/or headcount enrollment-based portion of a funding formula with weights by student characteristic.

In the outcomes-based funding metrics, Nevada's metrics are pretty solid, pretty common, pretty standard. They check all the right boxes in terms of the metrics that are in the formula. You could consider things like transfer and progression as something to dig into further, but HCM did not feel like that was something in dire need of addressing. But the implementation, that sort of institution-specific pool, would be something that we think would make sense to look at moving away from and moving towards one of those four recommendations on that particular issue.

Mr. Carroll concluded by thanking the Committee and asking if there are any questions.

Chairman Hardest noted that one of the things that the Committee from the presidents was the need for different student attributes and how those would be measured. He asked if that was part of HCM's consideration and study.

Ms. Snyder asked if the Chairman was referring to institutional and/or student attributes.

Chairman Hardesty said it was both – student and institutional attributes.

Ms. Snyder indicated yes, it is in many ways part of HCM's analysis, particularly the student attribute piece. HCM is also looking at ensuring that the formula supports the particular institutional missions.

Chairman Hardesty noted that he believes Nevada's approach to budgeting is backwards and creates a problem for the presidents. For NSHE to plan based on history rather than forecasting and looking forward is of concern. He asked if HCM is considering that or do they have suggestions in that area.

Mr. Carroll responded by noting that something that has been discussed is the use of a three-year rolling average for weighted student credit hours. He noted that is a pretty common approach in a lot of funding formulas. Certainly, something the Committee can weigh as part of the recommendations. Further, he noted that he could not recall any specific states that try to forecast. All states use backward-looking data because that's what's available and known. He noted it's going to be nearly impossible to prevent that entirely, but using historical data can be improved upon.

Chairman Hardesty responded that suggestions in that area would be helpful.

Ms. Snyder noted that perhaps considering within the O&M aspect, some of the considerations that have been mentioned previously looking at some small school or enhancing the small institution adjustment or reviewing that and making sure that's considering the very costs associated with being a small school and particularly a small geographically broad institution. Also potentially including student attributes within the consideration of O&M. She noted that provides stability, but the variability or dynamic nature of enrollments, weighted student credit hours, and completions is something that is most commonly reflected and addressed through three-year averages.

Chairman Hardesty noted that student attributes, such as student supports, part-time students, summer school students, students who aren't completing degrees seem to be more common in the community colleges, explaining his desire to look at a different formula for community colleges.

Ms. Snyder noted that a separate formula is certainly more common in community colleges. However, she would expect that the State would still want to support those students receiving access to the State's public research institutions. So, ensuring there's an incentive for the enrollment and completion of those students across the entire system.

Chairman Hardesty asked if HCM could you share what their next steps will be?

Mr. Carroll noted that HCM is concluding the remaining interviews with committee members and other stakeholders. We are going to be reviewing the institutional recommendations and then digging into some of the issues you mentioned. We already had the summer credits on our list of data analysis to begin doing, but also wanted to hear from the committee in terms of any particular areas we addressed today as to areas of interest for further analysis.

Chair Hardesty indicated that a common theme heard from the presidents' is that the performance pool, as configured, doesn't work. He noted an almost universal advocacy that the performance pool be abandoned entirely. He did not if any substitutions have been suggested. He asked if the performance pool should be eliminated and substituting it with something else?

Ms. Snyder noted that she did not necessarily have a specific recommendation at this point. She further stated that considering how the performance pool is implemented is something absolutely that we want to consider, and I think we've put forward some recommendations on that. Going back to the earlier part of HCM's presentation looking at a more comprehensive funding formula, that includes core costs, enrollments adjusted for student characteristics, outcomes adjusted for student characteristics and some mission differentiation and having that be kind of the crux of the funding formula rather than a carve-out that distributes a certain portion of that funding formula is perhaps a way of looking at it and perhaps something for the Committee to consider. It's a more comprehensive funding formula that still reflects many of the components of the existing funding formula but doesn't have that kind of carve-out that is perhaps providing the most heartburn for institutions in terms of the way it's currently modeled and allocated.

Mr. Christenson noted several of his observations. The slide entitled State funding for resident FTE versus headcount for 2017 to 2018. He grouped the different types of institutions and took

a look at those. For example, when combining the Tier 1 research institutions he noted that on an FTE basis UNR is getting roughly 12 percent more. On a headcount basis it looked more like 23- 24 percent more. Looking at an average of the Great Basin and Western Nevada and Truckee Meadows and compared that with CSN, and on an FTE basis, it's about 16 percent more than CSN, and on a headcount basis, it's about the same. Then I looked at Nevada State, and it's lower than both of those. He asked if there's something in the current funding formula that will account for a difference between the Northern Nevada schools versus the Southern Nevada schools.

Dr. Peter Reed left the meeting at 3:36 p.m.

Mr. Carroll explained that it is reflective of the weighted student credit hours and the program mix at those institutions may be different in a way that leads to higher funding levels. He noted his surprise that it aligns geographically

Mr. Christenson noted his observation that when looking at the principles of a strong secondary finance system [included in the slides]. One of one of the principles says aligns State's current needs for a more educated and trained workforce. Thinking about the timing of the Committee's work, there will be a lot of parties that want to have some influence on what those needs are for a trained workforce and so forth. He asked how does the Committee consider some of those things assuming that we want to adopt these principles as part of our report?

Ms. Snyder responded noting that the performance pool metrics include some consideration of alignment or high-demand degree areas. Certainly, potential reflection of how that gets measured, are there areas of demand for the state, are there areas of particular need for the state, that the Committee would want to incent completion of those types of degrees or even establishment of expanded programs in those areas. She continued, noting nursing that it is likely an issue for Nevada is it is an issue for the nation. Teachers are often another area, and then certainly STEM, health, or other health-related industries are oftentimes incorporated. States oftentimes connect to this or engage with their workforce development agency to understand what those needs are and include that or at least incorporate those issues in some way in their funding model.

Mr. Christenson agreed and stated that he did know if that belongs in the performance pool necessarily. He suggested that such matters should be part of a base of a funding formula. Finally, as he noted the six principles of a strong postsecondary finance system outlined in the HCM slides, he noted the need for another principle: Is this a fair way to go about allocating the resources that we are contributing to our higher education system.

Assemblywoman Mosca noted the principle of clear goals and objectives as well as it defined as an adequate level of resources. She indicated that the last plan may have included some goals and that's resulted in the performance pool because it was linked to the objectives. She continued by noting that she is sure that the new plan is happening, it would be much easier to understand and provide recommendations if she knew what the aligned vision was.

Vice Chair Charlton noted that in reviewing the State funding per resident FTE versus headcount TMCC, Nevada State and CSN in particular are the three institutions that do not have any kind of enhancer to their current formula. For example, they don't have the small institution factor, and they don't have a research base. As such is that difference in funding the result of those missing factors and not just a result of the mix of program?

Mr. Carroll agreed that the lack of those factors likely plays into it. We had the amount that the O&M research factor plays in that provides between \$150 or \$300 per FTE, and we can find what the amount is per the small institution factor as well, but that certainly plays a role.

Vice Chair Charlton also noted that for the community colleges in particular, while they don't have research, they do have non-credit workforce programming. She recommended that non-credit programs should be considered in the base formula. She asked if there are any states that perhaps utilize something along those lines to either accommodate for the non-credit programs and even for the space similar to research institutions?

Ms. Snyder indicated that can bring more information about that to our next meeting. But just a general comment is increasingly states are factoring in and considering non-credit within their funding formulas and how best to account for that.

Vice Chair Charlton noted the core cost, consideration of the characteristics, the mission and the institutional type will go a long way to really looking at what a fair and equitable funding formula might look like. While a lot of time has been spent on the performance pool, she noted her desire that the performance funding or performance matters not be thrown out altogether. It's important to have goals that we've set for accomplishing degrees, transfer, supporting some of our populations. The problem is that our performance pool, while it's outcomes-based, it actually doesn't drive institutional funding or even drive funding into NSHE as a whole. It's basically that earning back.

Vice Chair Charlton asked that as HCM is looking at funding formulas in other states, the matter of inflationary costs needs to be addressed. She asked if there are any best practices to address expenditures like utilities that are outside the control of the institution and that are not directly attributed to the actual delivery of instruction and completion?

Mr. Johnson responded noting that those are costs that institutions have to cover and the formula is an allocation method, it can't produce money that the legislature doesn't award. So, institutions either have to cover their costs out of their existing funds that they are using for something else or out of tuition or they have access to other resources for research or auxiliaries or wherever the cost increases are happening.

Chairman Hardesty asked if there are institutions that collect those kinds of uncontrollable costs and fund them directly from the legislature with a COLA, for example? Is that something that could be considered?

Mr. Johnson responded noting that such matters are often a point of negotiation between a system or institutions and the legislature, and if the legislature does not provide funding

specifically for inflation-based costs, then, of course, if an institution has an unavoidable utility increase, it has to pay that, and it may have to leave faculty lines unfilled or there's some other place where that money has to come from or they have to raise tuition, if they have the discretion to do that. If they have a collective bargaining agreement with a COLA adjustment that they've committed to in that, then they have to fund that before they fund things that they have more discretion over.

Chairman Hardesty posed a question to Mr. Combs based on his experience in the state legislature. He noted state agencies get roll-ups for those kinds of costs. Is that not the case here?

Mr. Combs indicated things like utilities, for instance, have been brought up a number of times where there's been a significant increase in utility costs in the state, and obviously there's nothing in the NSHE budget necessarily to address that. NSHE is not all that different from every other state agency in that regard. It might be something that you'd want to consider on a more global basis in terms of talking to the legislature or the governor's office. They're the first ones responsible for putting it in the budget. But if you address it for the state as a whole, not just asking for it for NSHE, treating NSHE like every other state agency would in that regard, may be more effective. It would be in maintenance decision unit, there would be an inflation factor applied. It may or may not address everything, but it would hit NSHE the same way it would hit every other state agency in that same regard.

Dr. Dalpe noted that the performance pool as part of our state appropriation. We earn that off weighted student credit hours. The 20 percent needs to go away. But that 20 percent funding has to stay in the base, because we live and breathe on the total funding we earn the one time.

Mr. Carroll responded that HCM's view of a best practice for having any performance-based funding built into a formula is it has to be guaranteed from year to year, and if additional funding is not available it would have to come out of the set aside before the weighted student credit hour allocation in order be guaranteed from year to year.

Dr. Dalpe added that he recognizes that we're not talking about new funding, but either way that 20 percent gets carved out would be a hardship on our top-line budgets.

Mr. Combs noted on the performance pool issue, the new funding idea that's been thrown around a little bit, it seems to me that the one comparative state that you provide us that does that outside of the normal funding is Oklahoma. Is that the minority of the states do it that way? And I noticed they only carved out 2 percent. I'm thinking that makes a little bit of sense because if you're doing it outside of your base funding, you sure don't want to set it up so that you achieve those metrics, you get part of that 2 percent, and then the next year, you don't get part of that 2 percent, then you can't use that 2 percent for ongoing costs like creating new programs or expanding existing programs because that funding is not ongoing. If you made it 20 percent or 15 percent, that would just grow exponentially year to year, and then you increase the chances that the legislature is not going to have the funds to fund that going forward as well. Is that most states have done something different than what Oklahoma has done?

Ms. Snyder indicated that is correct. A lot of that comes from previous performance-based funding models that were funded outside the base funding allocation. They went away in difficult times. Perhaps a way of looking at it is considering adding or incorporating the metrics. That way the base is actually calculated and incorporates not just weighted student credit hours adjusted for student characteristics or student attributes but also incorporates the outcomes that are currently carved out within the performance pool. It's more of a formula that incorporates every element rather than carving out specific pieces of it to fund outcomes from what is currently being calculated as institution's base. It's more of a formula allocation that considers additional factors beyond the existing weighted student credit hours but as a way of also incorporating the outcomes that are currently reflected in the performance pool.

Vice Chair Charleton indicated her confusion on the recommendation where we move away from institution-specific pools. So, you're saying to put all those in the base, which may cause an increased risk if it's all the base funding is determined on that. Putting outcome factors within the base formula we will effectively move away from institution-specific pools where at least the institutions right now aren't competing with each other; they compete with themselves. Is it correct to say that everything is put into that mix with all of those different measures -- is that what you're saying?

Ms. Snyder indicated yes. That's the way that states are increasingly approaching this. And, yes, it does enhance or potentially enhance competition. But it's a way of distributing state resources across a variety of factors that each institution can share in. There are tradeoffs regardless of the allocation or the allocation approach that's being used. But, yes, that is effectively one of the considerations or one of the possible considerations is a formula that actually incorporates the outcomes within it for allocating resources across institutions and can build in different adjustments to minimize any disruption in current funding.

Chairman Hardesty concluded by thanking the HCM representative for their presentation.

7. Information Only - New Business

Chair Hardesty stated that he wanted to revisit a conversation from the November meeting. At that time, some members of the Committee indicated they may have conflicts with the meeting scheduled for July 25th. That Chair had requested members reach out to him regarding any conflicts. Having not had any follow-up regarding conflicts. Chair Hardesty also indicated that he asked staff to finalize that date for the development of the Committee's recommendations, understanding little time would be available for staff to complete the final report. He asked if anyone had concerns with that date. Senator Buck indicated she could not be in attendance on July 25th. Chair Hardesty then indicated that the next couple of meetings will be important to crystallize what the Committee will do with its recommendations.

Chair Hardesty then address the concerns expressed by several presidents regarding the capital and deferred maintenance needs of their campuses. He noted that while the primary focus of the Committee is the funding formula, he appreciates that infrastructure is critical to providing education and training opportunities for students. As a result, he asked that the Committee set

aside time on the May agenda to discuss those concerns and possible recommendations, understanding that the Committee's primary charge focuses on the NSHE funding formula.

Chair Hardesty reminded everyone that the next meeting will be on April 26, 2024, beginning at 9 a.m., which is earlier than our regular start time. He added that he had originally planned to attend the April meeting in Las Vegas, but he had to revise that plan. So, he will be chairing that meeting from Carson City and the Vice Chair will be assisting from Las Vegas. Chair Hardesty stated that according to the work plan, the April agenda will include presentations from HCM Strategists, which will include additional information on recommendations for modifications to the NSHE funding formula. Representatives from the Nevada Student Alliance will provide the students' perspective on the funding formula and any recommendations they may have to improve the NSHE funding formula. Additionally, the Committee will be reviewing the matrix of recommendations from the presidents that he mentioned at the beginning of the meeting.

Chair Hardesty asked if there were other items that the Committee would like to include on future agendas?

Ms. Williams indicated that she would like to circle back on the discussion around workforce and if the Committee felt it would be beneficial to hear from Workforce Connections or another entity around workforce and training as it relates to better understanding those needs. Chair Hardesty asked for clarification, and Ms. Williams responded that she was wondering if agencies, such as Workforce Connections or GOED, should provide their perspective on the needs of businesses and industries. Vice Chair Charlton indicated that NSHE often works with GOED, specifically as NSHE aligns itself with the priorities of the State in emerging job needs and/or shortages in the labor pool.

Mr. Christenson agreed that the Committee should hear from workforce. He then indicated that perhaps the Governor's Office or the legislature would want to weigh in what the final weights ought to be; he was not sure that the Committee was necessarily the group that should provide those. Chair Hardesty stated that he believed the Committee would offer some suggested weights, understanding that ultimately the recommendations would be reviewed by the Governor, legislature, and Board of Regents.

Ms. Williams expressed her hope that the Committee will at least have recommendations as it relates to weights and priorities because, from an equity standpoint. She also suggested that a recommendation may focus on priority of weighting, rather than specific weights. Chair Hardesty indicated that one of the things staff is attempting to do is calculate the consequences of some of the recommendations, to the extent data is available. He also shared that some recommendations made by the presidents do not appear to have existing data. Chair Hardesty indicated that quantifying or at least having formulaic information to make some calculations will help him, and perhaps others, in assessing the impact of the recommended formulas.

8. Information Only -Public Comment

Mr. Kent Ervin, representing the Nevada Faculty Alliance (NFA), provided public comment. He stated that based on the main formula-funded budgets per student FTE for just the seven

educational institutions, there's pretty close parity between the two comprehensive universities on the one hand and the four community colleges on the other. He indicated that it would be helpful to have more education on how the state-adjusted base budgets are created through the state budgeting process, which is before the redistribution per the formula.

Mr. Ervin stated that his understanding is that weighted student credit hour hours are not used to calculate the total base budget. It's a distribution formula after the budget is set, not a funding formula. That needs to be understood unless the goal is to change that process. And that would also need to be understood.

Mr. Ervin concluded, stating that one of NFA's missions is to advocate for shared governance. He would recommend that the consultants contact the Faculty Senate leaders at each campus, since there's only one faculty representative on the Committee, and a faculty presentation does not appear to be scheduled.

After confirming that there was no additional public comment in Carson City, Las Vegas, or telephonically, Chair Hardesty closed public comment and adjourned the meeting at 4:14 p.m.