NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

Funding Performance through the Higher Education Funding Formula

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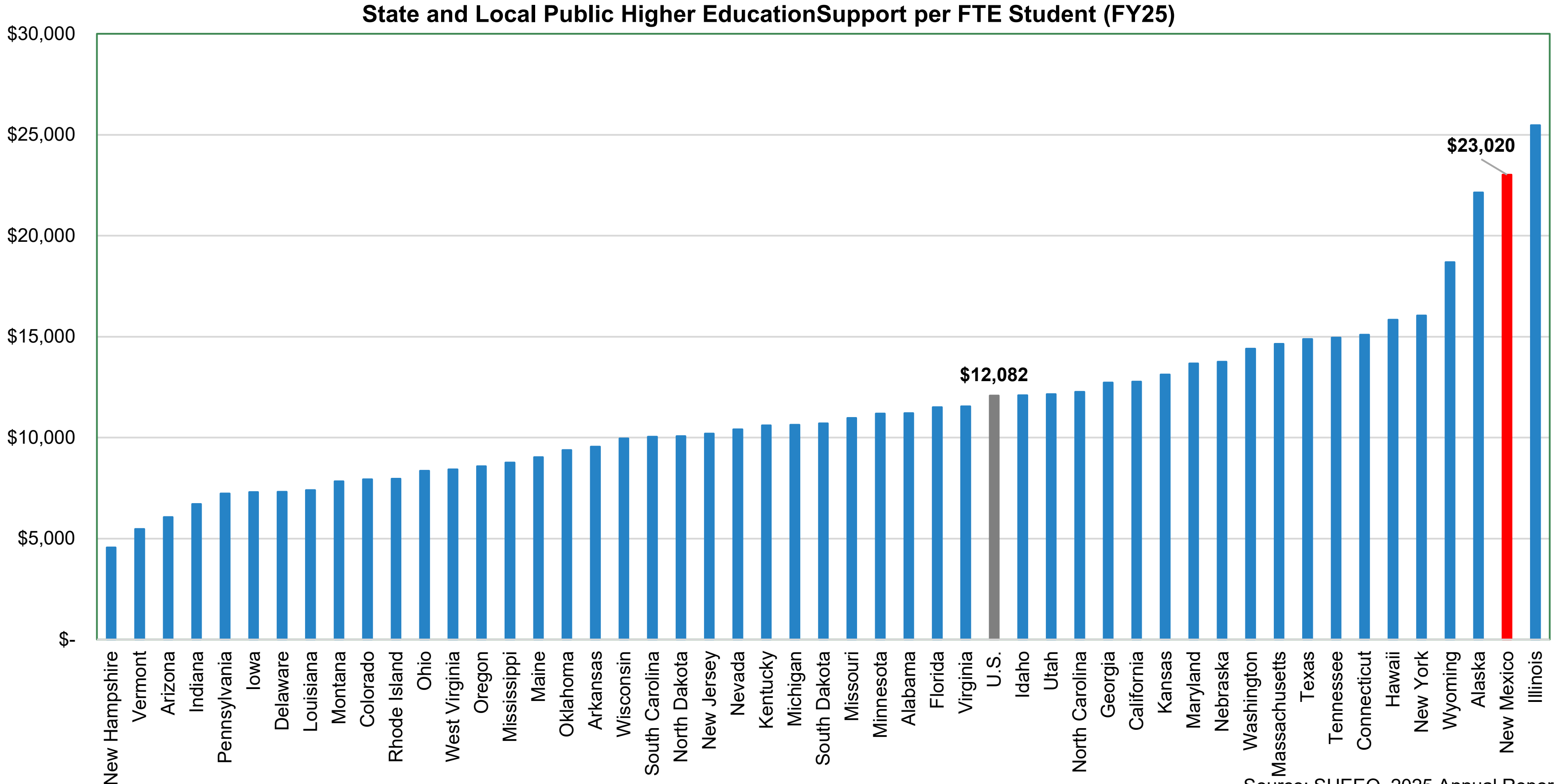
Presentation for Higher Education Funding Formula

July 21, 2026

Higher Education Funding



Source: SHEEO, 2025 Annual Report

Funding Formula Background

- A funding formula is a methodology to allocate state appropriations to higher education institutions based on the values and priorities of the state.
- Performance-based funding formulas are intended to drive outcomes by providing a transparent and predictable mechanism to allocate resources to colleges.
  - Performance-based funding formulas use performance on a set of metrics to determine how funding should be allocated.
  - These funding formulas vary widely in construction with states using different measures and allocation percentages to allocate funding.
- The State Higher Education Executive Officer's Association reports 30 states currently use performance-based funding formulas.

New Mexico Formula

- New Mexico uses a performance-based funding formula created in 2012 to allocate new money only. This is known as “base-plus” budgeting.
  - Base-plus budgeting means that institutions will never receive a reduction in funding because of the funding formula; appropriations can increase due to performance, but they do not decrease.

- Formula adjustments are made each year by a technical committee including: the Higher Education Department (HED), Department of Finance and Administration (DFA), Legislative Finance Committee (LFC), and higher education institution associations and employees. The formula serves as a basis for HED to make funding recommendations the LFC, Governor, and Legislature.

Formula Changes

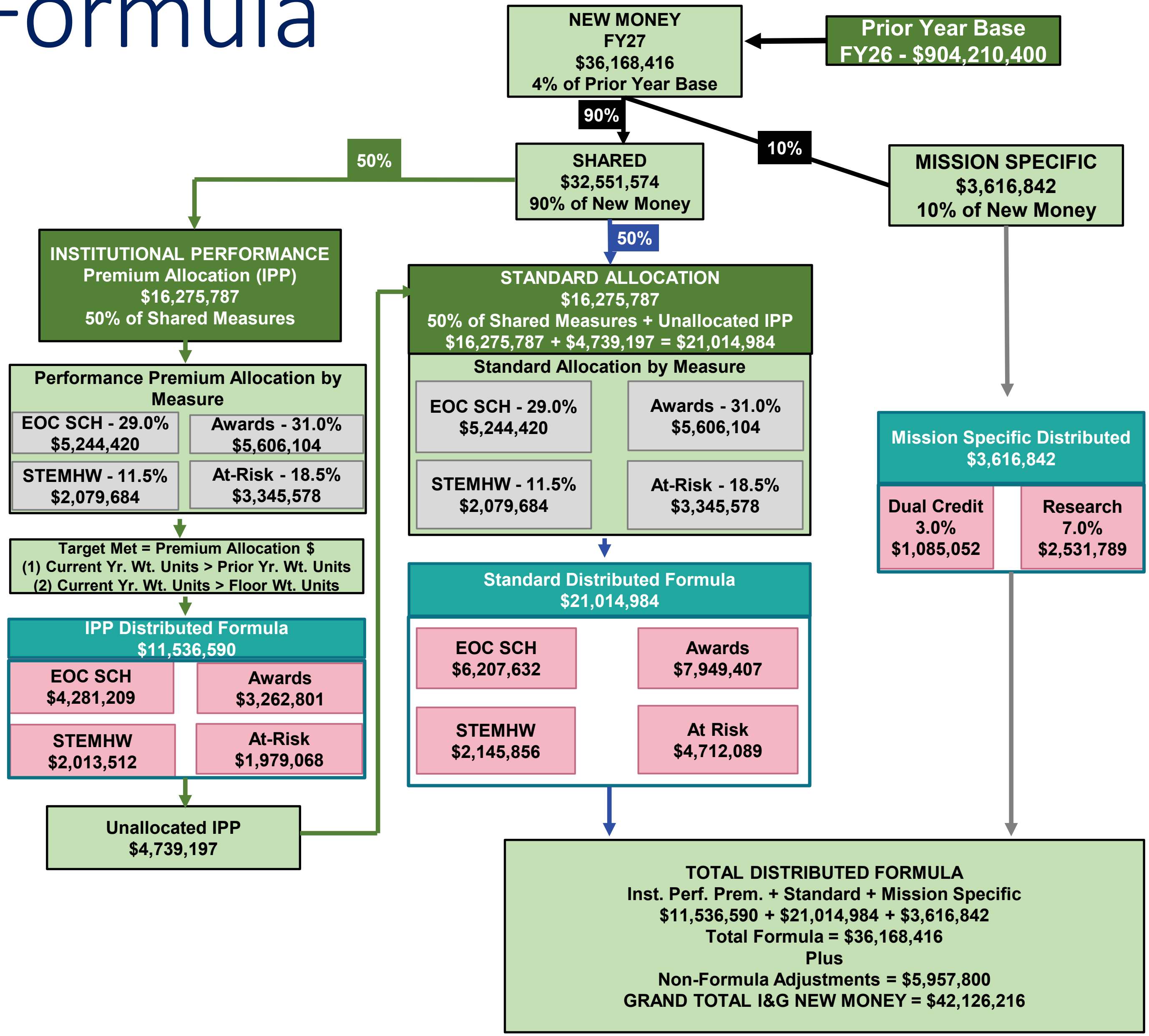
- The funding formula has been changed in several notable ways over the past four years:
  - 2023 (FY24): removed certificates of academic progress from awards measure while adding workforce certificates as eligible awards.
  - 2024 (FY25): increased the performance premium weight from 10% to 20%
  - 2025 (FY26): Increased the performance premium from 20% to 50%
  - 2026 (FY27): Streamlined measures by removing momentum points which provided an increase for students receiving 30 or 60 credit hours. Reduced the set allocation for research institutions. Increased the weight to student credit hours.

- The changes made reflect the Legislature’s effort to streamline the formula, improve incentives for outcomes, and meet basic operational needs of institutions experiencing the fastest enrollment growth.

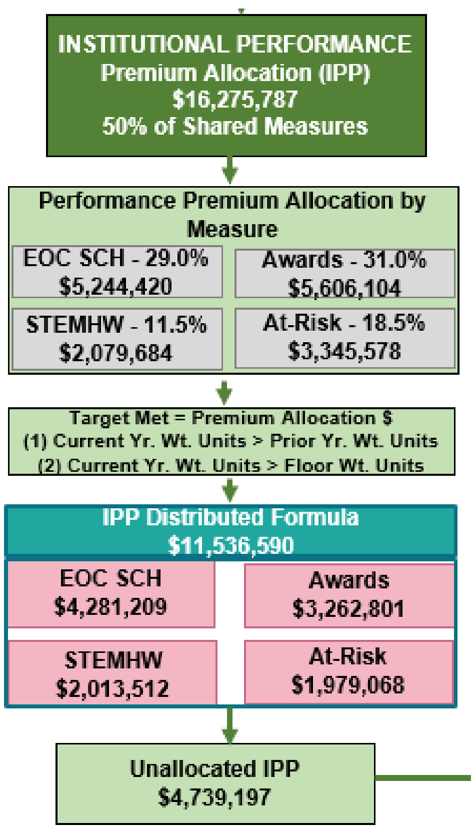
Funding Formula

The Higher Education Funding Formula is a base-plus allocation model for new higher education I&G appropriations.

- The formula is not defined in statute and is altered annually by HED, DFA, LFC, and institutional staff.



Institutional Performance Premium



Institutional Performance Premium Measures (IPP) are intended to provide additional funding for increased performance.

- There are currently four measures:
  - End of course student credit hours
  - Total awards
  - Awards in STEM, Health or Workforce programs
  - Awards received by at-risk students defined by Pell grant eligibility
- To qualify for IPP funding, an institution must achieve a minimum performance threshold.
- Unallocated IPP funding is then redistributed based on standard allocation which moves funding from performance-based distribution to market share-based distribution.

Considerations:

- Three of four measures are based on awards, which lag by several years.

Defining Performance

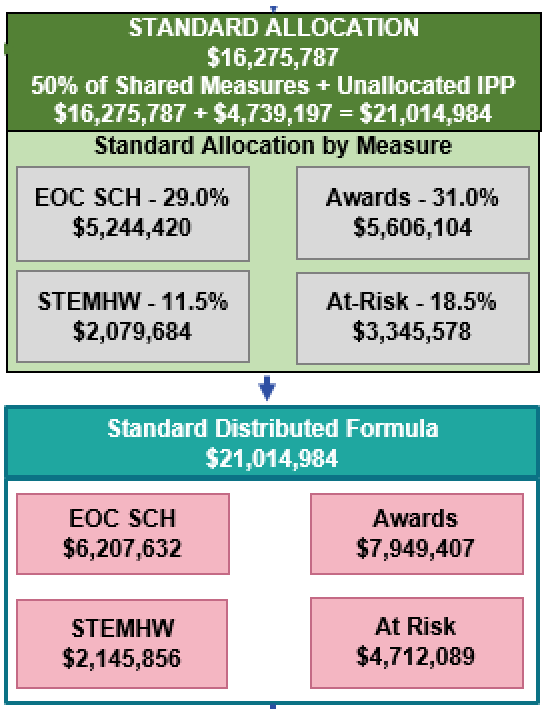
Institutional Performance Premium		
Level	Criteria	Award
1	>=95%	100%
2	90% - 94.9%	75%
3	85% - 89.9%	50%
4	Crnt Yr > Prior Yr	25%

Qualification for institutional performance funding requires institutions to hit performance thresholds that determine the amount of the award.

- The criteria are based on performance relative to a 5-year average.
- IPP awards allow an institution to produce up to 15 percent fewer awards or credit hours and still qualify.

Additionally, the formula weights all credits by the type of credit e.g. upper division or lower division and subject area e.g. English versus engineering.

Standard Allocation



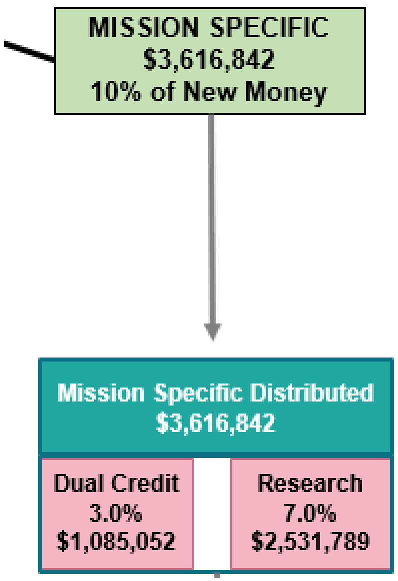
The standard allocation is distributed based on the share of student credit hours and awards that are produced by each institution.

- The market share approach directs additional funding to institutions regardless of changes in performance.
- Enrollment and awards have generally been declining over the past decade, though are up in recent years.
- As IPP distributions falls, the standard allocation share of formula funding increases.

Considerations:

- Using market share reduces performance incentives.
- The focus on awards creates a lag in formula reactivity to changes at institutions.
  - Bachelor’s degrees often take 6+ years to complete while associate degrees often take 3+ years.

Mission Specific Measures



There are two mission specific performance measures designed to reflect the different educational missions of the higher education sectors.

- Research: applicable to R1 institutions only (UNM, NMSU, NM Tech) based on the set percentage by institution.
- Dual credit: Applicable to comprehensive, branch, and independent community colleges based on end of course dual credit hours.

Considerations:

- Research measure is a set distribution regardless of R1 performance.
- Dual credit will no longer be a requirement for high school graduation beginning in 2029.

Funding Formula Outcomes

When the funding formula is applied, institutions receive an increase based on performance on the metrics.

The LFC recommended a total increase of 4% over the FY26 base.

For FY27, the best performing institution, ENMU, received an increase of 5.4% while the worst-performing, NMSU-Alamogordo, received 0.8%.

FY27 LFC Recommendation			
Formula New Money			**4.0%**
Institution	**FY26 Base**	**FY27 Formula**	**FY27 Formula % Increase**
NMT	40,593.4	1,662.5	**4.1%**
NMSU	178,008.7	9,254.6	**5.2%**
UNM	285,341.8	12,341.7	**4.3%**
ENMU	46,919.6	2,511.3	**5.4%**
NMHU	41,324.6	1,215.0	**2.9%**
NNMC	14,296.8	378.4	**2.6%**
WNMU	30,194.3	1,598.6	**5.3%**
ENMU-RO	16,204.0	418.7	**2.6%**
ENMU-RU	2,679.9	114.8	**4.3%**
NMSU-AL	9,289.4	75.6	**0.8%**
NMSU-DA	32,138.0	1,099.0	**3.4%**
NMSU-GR	4,613.2	107.3	**2.3%**
UNM-GA	11,812.6	311.2	**2.6%**
UNM-LA	2,547.2	56.5	**2.2%**
UNM-TA	5,204.3	167.5	**3.2%**
UNM-VA	7,673.9	186.6	**2.4%**
CNM	85,154.0	2,562.2	**3.0%**
CCC	13,536.4	318.2	**2.4%**
LCC	9,383.2	118.0	**1.3%**
MCC	5,347.8	94.1	**1.8%**
NMJC	7,962.7	284.8	**3.6%**
SJC	33,574.6	828.0	**2.5%**
SFCC	14,970.3	335.6	**2.2%**
SENMC	5,439.7	128.4	**2.4%**
Total	**904,210.4**	**36,168.6**	**4.0%**

Fiscal Considerations

New Mexico is among the best funded higher education systems in the nation, but student completion remains among the lowest in the country.

- New Mexico college enrollment increased by 9 percent over the past 5 years. Increasing performance thresholds may be necessary to better target new money to institutions improving graduation and educational attainment the most.
- Noncredit workforce training programs are currently funded through a pilot program that ends in FY27. There is currently no funding mechanism to provide this programming on a recurring basis.
- Currently approximately half of credit hours are delivered online. The transition to online courses may change the cost structures of higher education, but these impacts are not reflected in the funding formula assumptions.
- The last major revision to the funding formula was conducted in 2012. A new systematic review considering changes in educational delivery and workforce outcomes may help the state improve outcome-based funding for higher education.

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