

## LFC STAFF BRIEF

**DATE:** May 7, 2014

**PURPOSE OF BRIEF:** Update LFC on the Higher Education Revised Instruction and General (I&G) Funding Formula: FY12 to FY15 and Future Considerations

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**EXPECTED OUTCOME:** Provide context for I&G funding formula changes to date; guide 2014 interim activities and FY16 budget preparations

The I&G formula is used as the basis for the department's general fund budget request, which the Department of Finance and Administration (DFA) and LFC consider as the basis for their respective budget recommendations.

Unlike the public schools funding formula, the law establishing the higher education I&G formula does not require specific components, weights, factors, or methods of calculation. Section 21-2-5.1 NMSA 1978. The law requires the Higher Education Department (HED) to develop a formula which may include up to 13 components, none of which focus on student performance or institutional missions.

### BACKGROUND INFORMATION

New Mexico, like many other states, attempted to improve institutional performance about 10 years ago by creating an endowment fund and grant program allowing institutions to apply for assistance in meeting statewide economic priorities. This \$28 million investment in performance funding helped institutions hire and retain faculty and accomplish other programmatic goals, but the efforts did not expressly require or result in increased student performance and did not receive sustained funding.

With the recent recession resulting in a significant reduction in state support for higher education, New Mexico joined Indiana, Ohio, Tennessee, Washington, and other states transitioning to another version of performance funding – one focused on student and mission-driven outcomes. This version directs state, institutional, and student investments to supporting student performance at two-year and baccalaureate levels. These performance funding models and recommended action steps are featured in the National Governors Association's Complete College America (CCA) program, the National Conference of State Legislators' (NCSL's) educational agenda and programming, the Lumina Foundation, and national educational advocacy organizations.

The state's FY13, FY14, and FY15 higher education instruction and general (I&G) funding formula appropriations were increasingly based on institutions improving student program completions and meeting their research, academic, and access missions. While the state has clearly moved in the direction of performance funding, legislators and institutions have called for a review of formula components to increase the population of adults with economically-valuable certificates and postsecondary degrees. This brief reviews the state's goals in revising the formula and its changes and additions during each of the last fiscal years. It concludes with an outline of that the Higher Education Department (HED), legislative committees, and institutions may pursue in preparation for the FY16 budget cycle.

### FORMULA: PROCESS, REVISIONS, & APPROPRIATIONS

Prior to 2011, the LFC called for simplifying the existing I&G funding formula.<sup>ii</sup> See Attachment 1, Instruction and General Formula: Pre-Performance Funding (FY12 and Earlier) and Performance Funding (FY13 on). The 1994 and 2004 amended I&G formula components included coursework (lower and upper division, graduate), building renewal and replacement costs, equipment renewal and replacement costs, library acquisition, instructional space, utilities, and institutional support. Over time, adjustments were made to the cost-calculations and revenues, drifting away from the formula's original purpose. In sum, the LFC found the I&G formula had transitioned away from calculating costs associated with and reimbursing institutions for providing postsecondary education

**Higher Education  
 Funding Formula Goals**

- Change direction – from funding educational inputs to funding results.
- Reward student success – access, retention, and completion.
- Reward institutional success by funding measures that reflect and strengthen institutional missions.
- Improve educational pathways – for recent high school graduates and adults, access, retention and completion.
- Review the new formula as implemented and revise and develop future formula components.

Source: LFC Hearing, Nov. 2011

**Comparison I&G Formula  
 Proposals, FY13**

	Task Force	HED
<b>Formula Components</b>		
<b>Base Year</b>	x	x
<b>Inputs</b>		
Utilities/ O&M	x	none
<b>Outcomes</b>	x	x
Completed Credit Hours	x	x
Total # Certificates/ Degrees	x	x
STEMH Awards	x	x
At-Risk Awards	x	x
<b>Revenue Credit</b>	x	none
<b>Mechanics</b>	1 formula	3 formulas
<b>Annual Review</b>	x	x

Source: Task Force Report, Sept. 2011;  
 HED Proposal, Oct. 2011

to one of primarily distributing legislative appropriations to institutions.<sup>iii</sup> During this time, for lack of a comprehensive cost study, the student credit hour matrix, developed in the late 1980s, had not been revised so that courses would be funded closer to their current cost. Further, the formula and its adjustments did not overtly support or promote the statutory policy goals of student success or gains in programmatic efficiencies.<sup>iv</sup> To this end, the General Appropriation Act (GAA) of 2011 required HED to recommend revisions to the funding formula for the FY13 budget cycle.<sup>v</sup>

**Fiscal Year 2013: Setting the Stage and Funding Performance.**

**2011 Interim Process.** To revise the formula by the FY13 budget cycle, HED met with executive agency staff, legislators and legislative staff, academics, institutional leaders, and national organization policy leaders to discuss goals and principles for connecting state appropriations with state priorities.<sup>vi</sup> The meeting resulted in a general commitment to develop a funding formula that would lead to increased educational attainment, meeting workforce needs, and achieving greater operational efficiencies among two-year and four-year institutions.<sup>vii</sup>

**Higher Education Funding Formula Task Force.** A Higher Education Funding Formula Task Force and its working committees, comprised of college leaders and finance officers, DFA, LFC, and HED staff, met regularly during the 2011 interim to address formula issues and provide annual recommendations to the HED, DFA, and LFC for the budget request and recommendations. In prior years, the LFC noted its concern that the task force failed to address concerns with the funding formula’s overall complexity and lack of funding to support student completion.<sup>viii</sup> However, during the 2011 interim, the task force and participants researched other states’ performance funding efforts and presented new performance funding models at a June 2011 LFC hearing.<sup>ix</sup> Building on the efforts of a “straw man” working committee charged with constructing the core elements of a performance formula recommendation, the task force adopted the working group’s recommendation in September 2011 and submitted it for HED’s consideration.<sup>x</sup>

**HED’s Workforce and Achievement Gap Initiatives.** In addition to task force meetings, HED conducted a number of meetings with private and public sector employers, state and legislative agency staff, and researchers to identify state workforce priorities and employment needs. The HED also held a meeting on ways for institutions and the state to address the achievement gap among groups of students, particularly low-income students. These meetings influenced the task force’s and department’s efforts to incorporate workforce and diversity components in the proposed formula revisions.

**I&G Formula Proposals.** HED received the task force report in September 2011 and submitted its own formula and report to the governor and Legislature by the October 2011 statutory deadline.<sup>xi</sup> While the goals of both recommended approaches were similar, the

To rise to meet national and international challenges, New Mexico should

- (1) integrate disparate state finance policies on state appropriations, tuition, and financial aid; and
- (2) pay for what the state values – better student performance, reducing equity gaps, and a high-skills workforce.<sup>i</sup>

Source: David Longanecker, President, Western Interstate Commission for Higher Education (WICHE)

#### **Proposed 2013 Interim Instruction and General Funding Formula Components**

- (1) **Identify targets for improving performance on workload and statewide outcome measures**
- (2) **Refine Mission-specific measures**
  - Research institutions: recognize the percentage of total federal grant and contract funds institutions generated for the state
  - Comprehensive institutions: recognize student academic progress for 32 credit and 63 credit milestones. (Note: These levels changed for FY15.)
  - Community colleges: recognize student academic progress for 32 credits and when students pass college-level English, reading, or math class after taking required remedial courses.
- (3) **Review workload and awards matrices to better reflect costs of providing courses and degree programs**
- (4) **Review institutional share calculations to mitigate for swings in other state and local revenues**

task force supported one formula and the department supported three formulas: one for research universities, one for comprehensive colleges and universities, and one for community colleges.

In November 2011, the LFC held a hearing to formally vet both proposals.<sup>xii</sup> As was noted at the hearing, both approaches would achieve most of the goals identified at the beginning of the process – funding student outputs instead of inputs, rewarding improvements in student performance, recognizing institutional missions, and providing for further refinement. Key components of both formulas included:

- (1) a base year;
- (2) a calculation to support utilities/plant and facilities operation and maintenance;
- (3) performance outcomes including:
  - (a) workload based on course completion, including a flat amount for student services funding, and
  - (b) incentives for generating total awards, types of awards, and awards earned by at-risk students;
- (4) a credit for a portion of mandated state and local revenues to support institutions; and
- (5) maintained the percentages of I&G general fund appropriations for each sector – research, comprehensive, and two-year – received in FY12.

The primary differences between the proposals were (1) carving out funding from the base year to reallocate according to institutional performance and (2) whether to apply one formula or three formulas (by sector) to distribute I&G funding. In addition, some institutions would have liked to include mission-specific measures in the formula, but none were fully developed and tested by fall 2011.

***FY13 Budget Recommendations and Appropriation.*** The FY13 DFA and LFC recommendations were based on the newly developed performance formula, but with different priorities. Both recommendations started with a base year, funded both workload and statewide performance measures, and applied a state/local revenue credit (institutional share), but used different weights or rates.<sup>xiii</sup> DFA carved out \$32.5 million, or 6 percent, of the total institutional base year to redistribute based on outcomes, while LFC added \$25 million in new money to distribute based on outcomes.

Basing the I&G appropriation on HED's formula, the Legislature appropriated a \$25.8 million increase for FY13 over FY12 general fund levels for a total institutional I&G formula appropriation of \$567.4 million, with \$28 million, or 5 percent, based on performance.<sup>xiv</sup> See Attachment 1 for a summary of formula components adopted for FY13. The Legislature also included language in the GAA of 2012 that required HED to continue working with DFA, LFC, and institutions to further develop its "Model T" version of the funding formula, but the governor vetoed this language.<sup>xv</sup> Specifically, the language directed the agencies and institutions to develop mission-specific performance outcome

As a member of Complete College America's *Alliance of States*, New Mexico commits to

- Identify postsecondary completion goals through 2020,
- Develop action plans and policy levers to achieve these goals, and
- Collect and report common measures of progress.

Source: Complete College America, Alliance of States

### Complete College America Metrics

#### Outcome Metrics:

- Degrees and certificates awarded
- Graduation rates
- Transfer rates to four-year institutions or out in the workforce
- Time and credits to certificate and degree

#### Progress Metrics:

- Enrollment in remedial education
- Success beyond remedial education, passing a college gateway course
- Credit accumulation
- Retention rates
- Course completion

#### Context Metrics:

- Unduplicated head count
- Degrees and certificates awarded
- Completion ratio (# of degrees awarded v. the number of full-time equivalent students enrolled)

measures and a proposal for considering the state's, institutions', and students' responsibilities for funding higher education in FY14.

**Fiscal Year 2014: Formula Revisions and Increased Performance Funding.** *2012 Interim Process.* During the 2012 interim, HED disbanded the long-standing Higher Education Funding Formula Task Force and established two committees: a steering committee comprised of institutional representatives and a technical committee including institutional researchers and finance staff and individuals from DFA and LFC.<sup>xvi</sup> The secretary charged the steering committee with considering formula refinements that would further student success, statewide economic goals, and workforce needs. The technical committee was charged with testing formula options and scenarios.<sup>xvii</sup>

HED's approach to developing formula proposals and vetting options concluded with mixed results, addressing some but not many of the Legislature's concerns or those identified by the task force during the 2011 interim. Institutions spent a great deal of time trying to address the Legislature's request for mission-specific measures, presenting measures for the department's consideration in September 2012. In HED's draft proposal presented to steering committee members, mission-specific measures were not included and fundamental concerns with the cost matrices used as the basis for valuing performance outcome measures were not addressed.<sup>xviii</sup>

At a September 2012 LFC hearing, the secretary presented information showing institutions significantly improved performance during the 2011-2012 academic year.<sup>xix</sup> Because of this change in performance, he noted the formula was working and that more funding should be allocated based on performance.<sup>xx</sup> Importantly, this improvement reflected institutions' existing policies and programs to improve student retention and performance, and not specific institutional responses to measures in the performance funding formula implemented in FY13. Institutional leaders expressed support for allocating a portion of general fund appropriations to student performance but voiced concern with excluding mission-specific measures. As noted at the September hearing and at the December 2012 LFC budget hearing, the steering committee did not produce a final report for the secretary's consideration, and the secretary did not distribute the final formula revisions to the higher education community before submitting the FY14 budget request.

*Complete College America and Accountability in Government Act Performance Measures.* In addition to the committee's work on the formula, the department continued to implement the requirements of being a member state of Complete College America (CCA), a national non-profit organization dedicated to increasing college attainment rates. Generally, this obligation requires regular reporting on many progress, completion, and demographic measures that are helpful in analyzing student performance at different institutions. Some CCA measures are similar to mission-specific measures

**Instruction and General  
Funding Formula,  
HED FY14 Proposal**

**(1) Base year**

- Adjusted FY13 I&G appropriation.

**(2) Statewide outcome measures**

- Fund student workload: student credit hour enrollment less institutional course completion ratio.
- Fund change in total certificates and degrees earned between academic year 2009-2010 and academic year 2010-2011.
- Fund change in total certificates and degrees earned in science, technology, engineering, math, and allied health for same academic years
- Fund change in total certificates and degrees earned by Pell-eligible students.
- Included a multiplier allocating weights to the total awards, STEMH awards, and at-risk awards measures. The multiplier could be used to distribute new general fund revenues (over FY13 levels) evenly to all institutions without changing the sector distribution.

**(3) Institutional share**

- Reduce general fund appropriation amount by other state and local government revenues received.

proposed by institutions and to those institutions report under the Accountability in Government Act (AGA). To reduce the reporting burden on institutions, the Legislature requested institutions revise their AGA measures to reflect required CCA reporting. This activity was pursued, but not implemented, for FY14.

*HED's I&G Formula Revisions.* The department's November 2012 funding formula revisions refined existing workload and statewide outcome measures and transitioned from funding based on the raw numbers of certificates and degrees produced to funding the change in awards produced between two academic years. This shift in measuring institutional progress towards the general statewide goal of increasing the number of New Mexicans with postsecondary credentials was controversial. Without a statewide plan and specific goals for higher education, some legislators wanted to direct funding based on an institution's change in performance over time, using the data reported for FY13 (the 2011-2012 academic year) as a baseline to measure future performance. Institutions, particularly those with limited potential to grow their student population, were concerned that modest improvements in performance would not result in sufficient revenues to cover I&G expenditures.

The department also clarified formula components, such as changing the course completion definition, the definition of eligible certificates included in the statewide outcomes measures, and the classifications of additional certificates and awards that satisfied state workforce needs. These changes generally addressed institutional concerns and state workforce needs at the certificate and less-than-baccalaureate degree level, but did not address the state's interests related to producing more bachelor's and graduate degrees. The formula did not fully reflect costs of, or value the state's priorities for, educating graduate and professional students. HED's proposed formula omitted some provisions included in the FY13 proposal, specifically a sanding mechanism and a 2 percent stop-loss component to limit an institution's loss of formula funding from the prior-year funding level. The department also added a multiplier with embedded values assigned to the statewide outcome measures that could be used by DFA and LFC to allocate additional general fund revenues across institutions evenly. Similar to FY13, HED incorporated additional academic year data and other changes into the formula and added a calculation that allowed for additional general fund support.

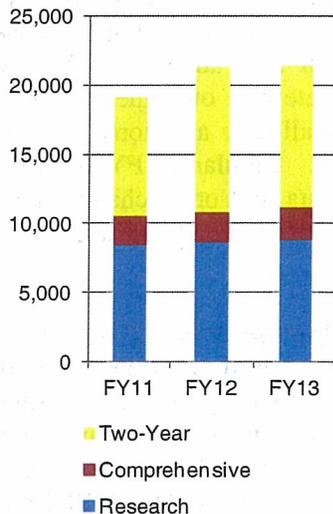
*FY14 Budget Recommendations and Appropriation.* Like FY13, the DFA and LFC recommendations were based on HED's revised formula. Both recommendations reallocated base year funding using performance data, funded completed student credit hours, and allocated funding based on an institution's change in award production from the 2009-2010 academic year to the 2010-2011 academic year. The LFC applied a revenue credit for other state and local government revenues (specifically, land grant permanent fund and mill levy revenues) received by institutions, while DFA did not take credit for these revenues. The recommendations also funded

**In response to student performance data, colleges and universities**

Make tutoring available upon student request	69%
Provide a "Student Success Course" and	
Require enrollment for new and transfer students	37%
Make it available to all students	63%
Refer students to academic centers for	
Writing	48%
Math	50%
Provide academic counseling and	
Require it for first-year and transfer students	55%
Make it available upon student request	67%
Use systems to "trigger" faculty or staff intervention (failure to re-enroll, poor attendance, low mid-term grades)	65%

Source: LFC Survey (May 2013);  
 LFC Hearing Presentations  
 (June 2013, July 2013)

**I&G Formula: Total Awards Production, by Institution Type**



Source: HED FY15 Budget Request

performance measures at different weights or rates, while maintaining a high priority on financially at-risk students earning awards.<sup>xxi</sup>

Basing the I&G appropriation on HED's formula, the Legislature supported an \$11.2 million increase over FY13 general fund levels for a total of \$567.4 million.<sup>xxii</sup> Importantly, \$41 million, or 7 percent, of I&G funding was based on performance: the \$20.1 million included in the FY13 base year (3.5 percent of total) and the \$20.8 million (3.5 percent of total) added for FY14. See Attachment 1 for a summary of formula components adopted for FY14. The Legislature again included language in the GAA of 2013 that required HED to work with DFA, LFC, and institutions to review the workload and award matrices used to value the performance measures, review the state and local government revenue credit (institutional share), and recommend mission-specific measures.<sup>xxiii</sup> The governor again vetoed this language.

**Fiscal Year 2015: Marked Focus on Performance, Different I&G Proposals Led to Greater Mission-Differentiation.** *2013 Interim Process.*

Though HED reported institutions improved performance leading up to FY14 and deserved funding based on this improvement, legislators asked for more details about whether and how the revised I&G funding formula changed institutional behavior and resulted in improved performance. In response, the LFC held two hearings to learn how institutions had responded to the new funding model. In addition, HED and institutions continued to refine the existing formula and identify ways the funding formula could provide greater mission-differentiation.

*Institutional Responses to Performance Funding.* During the 2013 interim, the LFC held two hearings to learn about institutional efforts to improve student performance since the formula provisions were enacted.<sup>xxiv</sup> Presidents and provosts from research, comprehensive, and two-year institutions highlighted evidence-based programs and policies being implemented at their institution. For incoming first-year students, colleges and universities are requiring intense academic activities and student services, like summer academic boot camps, concentrated remedial courses, streamlining academic programs within and between two-year and four-year institutions to improve transfer rates and timely program completion. HED, working with CCA, and institutions, focused efforts on changing remedial education requirements and delivery;<sup>xxv</sup> institutions anticipate that these changes will help students succeed more quickly at doing college-level work.<sup>xxvi</sup> More intrusive academic counseling and student services have proven successful in increasing student retention rates at other institutions, and New Mexico's colleges anticipate similar results.

*HED I&G Formula Revisions.* LFC requested that HED and institutions review the revised formula for any unintended impacts, review formula credit and awards matrices, and develop mission-specific performance measures. Unlike the 2012 interim, HED did

**Higher Education General Fund  
Appropriations,  
By Category  
(in millions)**

	FY13	FY14	FY15
Institutional I&G	546.5	567.4	599.8
UNM HSC I&G	57.4	59.1	61.4
Research & Public Service Projects	101.3	106.8	122.6
Retirement Contributions	11.5	15.4	3.7
Compensation	0.0	5.8	9.1
Special Schools	6.5	6.8	6.8
Operations and Financial Aid	34.5	34.7	35.2
<b>Total</b>	<b>757.7</b>	<b>796.0</b>	<b>838.6</b>

\* Note: FY15 includes GAA of 2014, Section 11 reduction.

Source: LFC Post-Session, Appendices.

**Total I&G Formula-Based  
Funding  
(in millions of dollars)**

	FY13	FY14	FY15
Adjusted/ Prior-Year Base	520.5	548.9	559.7
Workload Outcomes	15.5	10.5	12.8
Statewide Outcomes	12.5	10.3	23.0
Mission- Specific Outcomes	0.0	0.0	5.8
Institutional Share/ Revenue Credit	-2.1	-2.3	-0.4
Other Base Adj.	0.0	0.0	0.4
<b>Total I&amp;G Formula</b>	<b>546.4</b>	<b>567.4</b>	<b>601.3</b>

Source: GAA, LFC Post-Session

not form a steering committee for advice or comment but instead directed a technical committee to review the awards matrix and perform limited data analysis.<sup>xxvii</sup> The committee met, but very few times, and limited input from colleges and universities was solicited or provided. There was no departmental effort to review or revise the proposed mission-specific measures.<sup>xxviii</sup>

Nearly a month after the statutorily-required November 1<sup>st</sup> budget submission deadline and less than two weeks before the LFC's December budget hearing for institutions, HED provided LFC with the I&G formula that served as the basis for its FY15 request. The department changed the formula from prior years by (1) altering the definition of performance outcomes, excluding completed student credit hours; (2) creating a point system to index the value assigned to measure performance in generating certificates and degrees (collectively, "awards") to the value of a bachelor's degree; (3) changed the method for counting awards earned from rewarding all eligible certificates and degrees earned to a "one student, one award" approach; and (4) based change in institutional performance over three-year rolling averages instead of on an annual basis.

In addition, the department validated the approach of assigning greater value to institutions that generate more awards in total, more awards to financially at-risk students, and lastly for awards in workforce concentrations (science, technology, engineering, math, and health (STEMH) fields). In response to the Legislature's request for appropriations based on the most recent academic data available, the HED incorporated the 2012-13 academic year data in the formula for the FY15 request. The department did not alter values in the underlying cost matrices used to calculate appropriation levels for completed student credit hours and for statewide outcome measures based on awards. Using the revised formula, HED developed a complex point system to reallocate prior base-year funding and any new general fund revenues. The end result of HED's changes did not alter the allocation of funds across institutional sectors, but altered the allocation among institutions within the sectors.

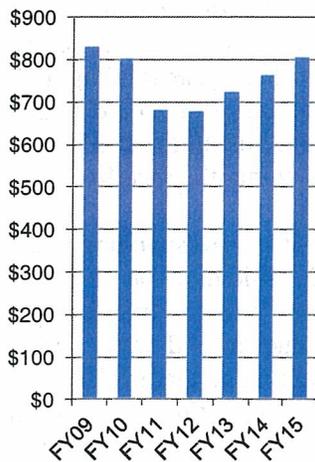
*Institutional I&G Formula Proposal.* Responding to the Legislature's direction in 2012 to take initiative on revising the funding formula, institutional leaders refined mission-specific performance measures from the 2012 interim and went further by developing an alternative funding formula – one that is clearer, more transparent, and greater mission differentiation.<sup>xxix</sup> Institutions formally shared this proposal with DFA, LFC, HED, and others in October 2013.<sup>xxx</sup>

To improve transparency, timeliness of calculations, and reduce burdens on HED staff, leaders also wanted a formula that could be run by institutions, DFA, LFC, HED, and others. Echoing the department's original proposal for the revised formula in FY13, institutions proposed a straightforward method for rewarding institutions for awards produced, limiting those certificates and degrees for which an institution will receive formula funding. Like

**Mission-Specific Measures in  
 FY15 I&G Formula**

- **Research institutions:** recognize the percentage of total federal grant and contract funds institutions generated for the state
- **Comprehensive institutions:** recognize student academic progress for 30 credit and 60 credit milestones and for completed dual credit hours.
- **Community colleges:** recognize student academic progress for 30 credit milestone and for completed dual credit hours.

**Higher Education  
 Institutions  
 General Fund Support**  
 (in millions)



Source: 2014 GAA, LFC Budget Documents

HED’s formula, institutions assigned higher rates for producing awards depending on program length and rates for awards earned in STEMH disciplines and by financially at-risk students. Research demonstrated that completed student credit hours could be funded at a single, flat rate, one that reflected coursework funding levels of the last 20 years.<sup>xxxii</sup> Approaching credit hour reimbursement in this manner would lead to a stable, predictable funding level for completed courses.

Importantly, the institutional proposal included mission-specific measures, rewarding research universities for securing federal grants and contracts and comprehensive universities and community colleges for their success with students reaching certain academic milestones and providing dual credit opportunities for high school students. The proposal recognized other institutional revenues that support I&G expenditures, allowing a credit to be taken. Institutions offered options to reduce both the prior year base and performance outcomes to achieve performance funding goals within appropriation funding levels. Lastly, the institutional proposal was overwhelmingly supported by presidents at all research and comprehensive universities and community colleges at the time of submission, though this support softened as regents became more involved in reviewing institutional revenues and during the 2014 Session.<sup>xxxii</sup>

**FY15 Budget Recommendations and Appropriation.** Unlike prior years and for a variety of reasons, DFA and LFC did not use the same formula as the basis for budget recommendations.<sup>xxxiii</sup> DFA applied HED’s proposed formula, but included the institutions’ mission-specific measures. LFC used the institutional formula proposal. Importantly, both recommendations (1) maintained the direction of performance funding, (2) recognized student success, (3) provided stability and equity in funding institutions, and (4) rewarded institutional success. Further, while the mechanics of the HED and institutional formulas varied, the formula components remained the same: a base year (and an adjustment to the base year), workload based on completed student credit hours, statewide outcomes based on awards production, a revenue credit, and new mission-specific measures.

**FY15 Appropriation.** During the budget process, the House Appropriations and Finance Committee and its Higher Education Subcommittee worked to reconcile the different approaches taken by DFA and LFC. The resulting compromise, approved by the Senate (Senate Bill 313), passed the Legislature, and enacted in Laws 2013, Chapter 63, was based on the institutional I&G formula with adjustments made to address executive and legislative priorities. Specifically, using the LFC recommendation as a base, the resulting formula reallocated 4 percent of base funding, increased funding for total awards production and workforce awards, and doubled the percentage of formula funding based on performance from FY14 levels.<sup>xxxiv</sup>

After three years of performance funding, LFC staff conclude that executive and legislative agencies and institutions agree that

- (1) some state appropriations should be based on student performance,
- (2) institutions should also be rewarded for succeeding at their missions – whether generating research dollars or improving students' timely academic progress, and
- (3) a formula should lead to a level of budget predictability and be amended when results-focused data is available.

Executive and legislative agencies and institutions disagree on the mechanics that

- (1) will lead to increased educational attainment, at a reasonable rate of statewide improvement;
- (2) recognize significant differences among institutions; and
- (3) accomplish both in a budget setting that allows institutions to plan and implement improvement strategies on a reasonable timetable.

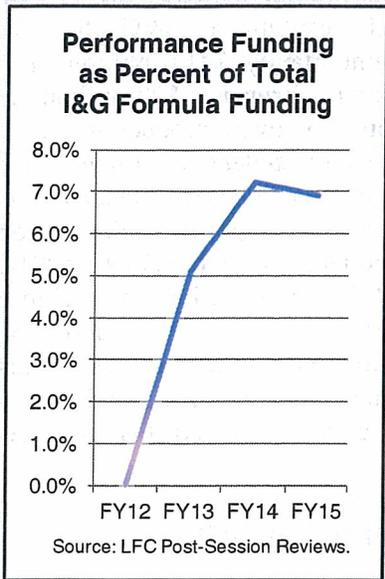
The Legislature approved an \$18.3 million increase over FY14 general fund levels for a total institutional I&G formula appropriation of \$601.3 million.<sup>xxxv</sup> Importantly, \$41.6 million, or 7 percent, of I&G funding was based on performance: \$23 million, or 55 percent, based on statewide outcomes of award production; \$12.8 million, or 31 percent, based on completed student credit hours; and \$5.8 million, or 14 percent, based on mission-specific measures. See Attachment 2 for a summary of formula components adopted for FY15. The Legislature again included language in the GAA of 2014 requiring HED to work with DFA, LFC, and institutions to develop a common method to calculate state levels of support for compensation and retirement contributions, review the state and local government revenue credit (institutional share), and revise mission-specific measures.<sup>xxxvi</sup> The governor vetoed this language for a third year in a row.

## CURRENT FORMULA ISSUES and PROCESS

**Issues.** On the basis of reviewing the first three years of the state's performance-based I&G funding formula, LFC staff concludes there is broad agreement on the formula's principles and performance measures but significant disagreement over the formula's mechanics. Since 2012, data shows there is a greater focus on performance measures: the state has allocated an increasing amount of state appropriations based on performance,<sup>xxxvii</sup> institutions have changed policies and programs to improve student retention and speed-up program completion,<sup>xxxviii</sup> and institutions have demonstrated success in increasing award production.<sup>xxxix</sup>

The state has demonstrated that using one formula to recognize institutional performance can include differentiation by mission – valuing classes and awards at increasing levels to reflect increasing costs of producing courses and awards. But, there appears to be limits to whether one formula can sufficiently address and fund the state's institutions that serve a diverse population, with varied levels of college preparedness, across a rural state. Research institutions vary greatly, with one having the health sciences center, another having all agriculture and outreach agencies, and another specializing in engineering and technology. Two-year institutions vary from rural to urban, headcounts of 2,000 to nearly 30,000, and many serve significant native and minority populations. A formula which also includes targeted measures based on research, baccalaureate, and access missions may be inadequate to support necessary efforts to propel student progress and program completion. More work is needed to determine how a funding formula can support statewide priorities.

The 2012 and 2013 interim sessions revealed disagreements between the executive branch and institutions and, during the 2013 and 2014 sessions, between the executive and Legislature over policy and appropriations priorities and formula mechanics. In areas of policy, for example, should the formula reward institutions that improve



**I&G Performance Funding (in millions)**

	FY13	FY14	FY15
<b>Completed Credit Hours</b>	15.5	10.5	12.9
<b>Statewide Outcomes</b>			
Awards	6.1	4.9	12.8
STEMH Awards	4.5	1.3	5.2
At-Risk Awards	1.9	3.9	4.9
Graduate Award Adj.	0.0	0.2	0.0
<b>Mission-Specific Outcomes</b>			
Research	0.0	0.0	3.5
Compreh.	0.0	0.0	0.5
Two-Year	0.0	0.0	1.7
<b>Total</b>	<b>28.0</b>	<b>20.8</b>	<b>41.5</b>

Note: For FY14, \$20.1 million of performance funding was included in the base year.

year-over-year, or only those that progress above the median rate of improvement? How quickly can institutional improvement occur, and what incentives work best to improve student progress and completion? Appropriations priorities focused on whether to allocate additional general fund revenues to implement funding formula changes. HED, DFA, LFC, and institutions may be able to resolve these disagreements by returning to the shared formula goals and evaluating how the proposed approaches achieve these goals.

Initial discussions to changing funding policies were broadly supported and reached collaboratively. Over time, as HED tried to address underlying issues in higher education finance, formula calculations again became overly complex and the key principles of clarity and transparency in performance funding were lost. As a consequence of this complexity, institutions were unable to make informed budgetary and programmatic decisions that increase student performance. Unable to fully share and address these concerns with HED, institutions and the Legislature supported and applied a formula approach for FY15 that returned to the initial 2011 formula goals – to develop a simpler, more transparent, and more predictable formula – and maintained the direction of rewarding student and institutional performance. The approach taken for FY15 should be continued during the 2014 interim, with the intention that goals and concerns are being addressed through the applied formula, making adjustments as necessary.

**2014 Interim.** The 2014 legislative session outcomes, departmental actions, and institutional concerns will direct I&G funding formula efforts during the 2014 interim.

**LFC 2014 Interim Workplan.** In addition to participating in a formula review process that HED may lead, LFC staff will invite and involve HED, DFA, and institutional leaders to review formula issues raised during 2014 session, specifically

- (1) the short-term and possible long-term effects for reducing the base-year appropriation to fund performance measures;
- (2) the data and language for mission-specific research, comprehensive, and two-year outcome measures, perhaps adding one for the University of New Mexico Health Sciences Center; and
- (3) consideration and effects of the revenue credit for other state and local government revenues, or institutional share.<sup>xi</sup>

In response to legislators’ questions during the 2014 session, LFC staff will also review the methods used by HED, DFA, and LFC to calculate compensation and retirement contributions for institutions. These efforts will result in written updates for the committee’s consideration during interim meetings and a fall 2014 hearing on I&G funding formula developments for FY16.<sup>xii</sup>

Last March, LFC and DFA staff met with institutional research staff from four-year institutions to discuss AGA measures for FY16.<sup>xiii</sup>

In moving away from a formula that reimburses institutions for instructional and general costs, neither HED, DFA, LFC, or institutions have reviewed or included educational cost-drivers in the revised formula. Salaries, benefits costs, insurance risk rates, utilities, and facility operations and maintenance costs were included in the FY12 and prior formulas, though not fully-funded. Some of these issues are included in the LFC 2014 Interim Workplan.

Both agencies encouraged institutions to reconcile, where appropriate, AGA measures with those submitted to the HED to satisfy CCA reporting requirements and other performance metrics that track student academic progress. Institutions may submit new measures to DFA by July 15, 2014 for FY16.

***HED I&G Formula Rulemaking.*** The department is pursuing formal and informal approaches to reviewing the I&G funding formula during the interim.

On April 15, 2014, the department published a hearing notice to amend 5.3.12 NMAC, the rule describing the department's implementation of the I&G funding formula statute.<sup>xliii</sup> The hearing for this rule change, initially scheduled for May 19 and 20, 2014 at the Capitol, has been postponed indefinitely. The department did not distribute the proposed rule change at the time the initial hearing was scheduled and has not done so to date.

Like the 2013 interim process, institutions report that HED appears to be preparing to form a steering committee to review the department's I&G formula proposal and the formula used by the Legislature for FY15. Typically, committee activities begin midsummer. At this time, LFC staff has not received notice of the steering committee's membership or specific charge. Given DFA's and LFC's consistent participation in formula development and review committees for more than a decade, LFC staff anticipates again participating on HED's steering committee or in HED's review process.

***Institutional I&G Formula Refinement.*** To prepare for the FY16 budget process, the I&G funding formula applied by the Legislature for FY15 should be updated with the most recent year of academic data. If the department is unable to provide data or run the FY15 applied formula, institutional finance and research staff may be able to prepare the information. This action should be completed by September 2014, in time for a fall interim LFC hearing on formula progress.

***Other Efforts.*** Some members of the Legislative Education Study Committee may seek to review the existing funding formula statute with the goal of introducing a bill in the 2015 legislative session. During the 2014 legislative session, House Bill 327 would have established a funding formula and calculations in statute.

**Fiscal Year 2016 Budget Preparation.** The LFC 2014 Education Workplan lists the possibility of having an education subcommittee. Such a committee met during the 2013 interim and discussed I&G funding formula developments and other policy and funding priorities. With subcommittee meetings and a tentative fall 2014 hearing on the formula, members will have many opportunities to hear from HED, DFA, and institutions on important issues to be considered during the FY16 budget process.

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**ENDNOTES.**

- <sup>i</sup> Longanecker, David, Higher Education Funding: State Lessons on Funding to Outcomes, LFC Hearing, June 2011.
- <sup>ii</sup> LFC Policy and Performance Analysis, Volume 1, pp. 27-28, January 2010; Policy and Performance Analysis, Volume I, p. 21, January 2011.
- <sup>iii</sup> LFC, Policy Performance and Analysis, Volume I, p. 20, January 2011.
- <sup>iv</sup> LFC Supplemental Graphs and Tables, Volume III, January 2012. 21-2-5.1 NMSA 1978.
- <sup>v</sup> Laws 2011, Chapter 179, Section 4.J, p. 177, ll. 7-8.
- <sup>vi</sup> Attendees List. Boulder Concordat: Building a New Higher Education Funding Formula Tied to New Mexico's Desired Workforce Needs (March 28, 2011).
- <sup>vii</sup> Garcia, José. Boulder Concordat: Building a New Higher Education Funding Formula Tied to New Mexico's Desired Workforce Needs (March 28, 2011).
- <sup>viii</sup> LFC Policy and Performance Analysis, Volume I, pp. 20-21, January 2011.
- <sup>ix</sup> Minutes, LFC Hearing, June 2011, pp. 19-22.
- <sup>x</sup> NM Strawman Working Group, Report to Higher Education Formula Funding Task Force, September 14, 2011.
- <sup>xi</sup> Watson-Hadwiger Formula, Higher Education Department, October 2011.
- <sup>xii</sup> Hartzler-Toon, T., LFC Hearing Brief: HED Proposed Funding Formula for FY13 and Beyond, November 17, 2011. Minutes, LFC Hearing, November 2011.
- <sup>xiii</sup> Difference Sheets, Institutions and Special Schools, 2012 Session Budget Hearings.
- <sup>xiv</sup> LFC Post-Session Review, April 2012, pp. 12; Ibid., Appendix L, p. 64.
- <sup>xv</sup> Laws 2012, Chapter 19, Section 4.J, pp. 165, l. 23 through p. 166, l. 1.
- <sup>xvi</sup> Garcia, J., Agenda and Charge to Steering and Technical Committees, June 15, 2012.
- <sup>xvii</sup> Garcia, J., Agenda and Charge to Steering and Technical Committees, June 15, 2012.
- <sup>xviii</sup> Garcia, Presentation to Steering Committee, September 26, 2012.
- <sup>xix</sup> Minutes, LFC Hearing: Higher Education Funding Formula Update, September 2012, p. 3.
- <sup>xx</sup> Minutes, LFC Hearing: Higher Education Funding Formula Update, September 2012, p. 3.
- <sup>xxi</sup> Difference Sheets, Institutions and Special Schools, 2012 Session Budget Hearings.
- <sup>xxii</sup> LFC Post-Session Review, April 2013, pp. 13; Ibid., Appendix L, p. 63.
- <sup>xxiii</sup> Laws 2013, Chapter 227, Section 4.J, p. 165, ll. 7-11.
- <sup>xxiv</sup> Hartzler-Toon, T., LFC Hearing Brief: Higher Education: Measuring Student Performance, June 2013; Minutes, LFC Hearing, Higher Education: Measuring Student Performance, June 2013 (New Mexico State University, New Mexico Junior College, Western New Mexico University); Hartzler-Toon, T., LFC Hearing Brief: Higher Education: Measuring Student Performance, July 2013; Minutes, LFC Hearing, Higher Education: Measuring Student Performance, July 2013 (University of New Mexico, Central New Mexico Community College, New Mexico Highlands University).
- <sup>xxv</sup> Higher Education Department, Remediation Report, December 10, 2013.
- <sup>xxvi</sup> Higher Education Department, Remedial Conference, December 2012.
- <sup>xxvii</sup> Chisholm, M., Higher Education Department Technical Committee Presentation, October 15, 2013.
- <sup>xxviii</sup> Hartzler-Toon, T., LFC Education Committee Brief, September 2013.
- <sup>xxix</sup> LFC Volume III: Higher Education I&G Funding Formula: Current and Proposed (January 2014), p. 88.
- <sup>xxx</sup> Presidents' Letter to Legislative Finance Committee, Institutional I&G Funding Formula Proposal, October 23, 2013; Institutional I&G Funding Formula Proposal, Electronic Mail, October 17, 2013.
- <sup>xxxi</sup> Peach, J. Proposed Formula Funding Model (Revised), September 11, 2013; LFC/Institutional Meeting, Staff Notes, September 11, 2013.
- <sup>xxxii</sup> Presidents' Letter to Legislative Finance Committee, Institutional I&G Funding Formula Proposal, October 23, 2013.
- <sup>xxxiii</sup> LFC Volume II: Budget Recommendation, January 2014, pp. 342-343; Hartzler-Toon, T., LFC Education Committee Briefs, September 2013 and November 2013.
- <sup>xxxiv</sup> Higher Education Subcommittee Report, House Appropriations and Finance Committee, 2014 Session (February 1, 2013).
- <sup>xxxv</sup> LFC Post-Session Review, April 2014, pp. 14-15; Ibid., Appendix M, p. 64.
- <sup>xxxvi</sup> Laws 2014, Chapter 63, Section 4.J, p. 160, ll. 6-11.
- <sup>xxxvii</sup> LFC, Post Session Reviews, April 2012, Appendix L, p. 64; April 2013, Appendix L, p. 63; and April 2014, Appendix M, p. 64.

<sup>xxxviii</sup> See Note xxiv (LFC Hearings June 2013 and July 2014).

<sup>xxxix</sup> LFC Volume III: Supplemental Tables and Charts, p. 89 (January 2014).

<sup>xi</sup> LFC Staff Education Workplan, April 2014, p. 4.

<sup>xli</sup> LFC Staff Education Workplan, April 2014, p. 4.

<sup>xlii</sup> Meeting with Council of University Presidents, DFA, LFC, HED regarding Performance Based Budget Measures, March 28, 2014.

<sup>xliii</sup> New Mexico Higher Education Department, XXV N.M. Reg., p. 207 (April 15, 2014).



**Instruction and General (I&G) Formula: Pre-Performance Funding (FY12 and earlier) and Performance Funding (FY13 +)**

Formula Component	GENERAL FORMULA ELEMENTS, FY12 & PRIOR YEARS	GAA 2012, FY13 General Fund Appropriation (2012 Laws, Chapter 19)	GAA 2013, FY14 General Fund Appropriation (2013 Laws, Chapter 227)	GAA 2014, FY15 General Fund Appropriation (2014 Laws, Chapter 63)
<b>Base Year</b>	•	•	•	•
<b>Formula Inputs:</b>				
Enrolled Student Credit Hours	•			
Student Services	•			
Utilities	•			
Plant Operations and Maintenance	•			
<b>Base Year Adjustment</b>			•	•
<b>I&amp;G Transfers</b>				
3% scholarship	•			
Building Replacement and Renewal	•			
Equipment Replacement and Renewal	•			
<b>Performance Funding</b>		•	•	•
<b>Workload - Completed Student Credit</b>		•	•	•
<b>Statewide Outcome Measures</b>		•	•	•
<b>Total Awards</b> (certificates 1 year+ and degrees)		•	•	•
<b>Workforce Awards</b> (STEMH)		•	•	•
<b>At-Risk Awards</b> (Pell-eligible students)		•	•	•
<b>Mission-Specific Outcome Measures</b>				•
Research Sector				•
Comprehensive Sector				•
Community College Sector				•
<b>Revenue Credit</b>	•	•	•	•
Tuition Credit	•			
Local/State Government Revenue Credit		•	•	•
<b>Sanding/Formula Total</b>	•	•	•	•
<b>Legislative/Outside Formula Adjustments</b>	•	•	•	•
Compensation	•	•	•	•
Retirement	•	•	•	•
Insurance	•		•	•
Library	•			
Other	•			

Source: LFC Files, Volume III

Attachment 1



## Higher Education Instruction and General Formula, GAA of 2014 (FY15)

	2-Year	Comprehensive	Research
<b>Base Year (4% reduction of FY14 Base)</b>	•	•	•
<b>Workload</b>			
\$4.75 per Completed Student Credit Hour	•	•	•
<b>Statewide Outcomes</b>			
<b>Total Awards</b>			
\$200 per certificate > one year	•		
\$250 per associate degree	•	•	
\$500 per BA degree		•	•
\$1,000 per MA degree		•	•
\$2,500 per PhD degree			•
<b>Workforce/STEMH Awards</b>			
\$1,000 per STEMH degree		•	•
\$500 per STEMH associate degree	•		
<b>At Risk Awards</b>			
\$1,150 per at-risk BA degree or higher		•	•
\$575 per at-risk associate degree	•		
<b>Mission-Specific Outcomes</b>			
\$4.75 per completed dual credit hour	•	•	
\$100 for each Momentum Point 30 (30 credit hours completed)	•	•	
\$250 for each Momentum Point 60 (60 credit hours completed)		•	
0.70% of Total Research \$			•
<b>Institutional Share (Partial credit for other state and local revenues)</b>	•	•	•

\* Except for the workload and mission-specific dual credit performance measures, each performance measure was awarded at 117% of the stated value.

