New Mexico Higher Education Department

The Higher Education Funding Formula: An Overview

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March 2008
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APR 16 2008
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The Department's Charge is to:

"Be concerned with the adequate financing of [these] institutions and with the equitable distribution of available funds among them." 21-1-26 NMSA 1978

"Develop a funding formula that will provide funding for each [public] institution of higher education to accomplish its mission…" 21-2-5.1 NMSA 1978

Higher Education Formula History

The original Funding Formula was developed in the mid-1970s in order to:

- Provide an objective, non-political means for determining the funding needs of institutions
- Allow the agency to make a coordinated funding request to the Governor and Legislature for the higher education sector

Although both major and minor adjustments have been made over the years, the basic concept has remained the same.

In 2002, the Blue Ribbon Task Force was created to revise not only the mechanics of the formula, but also the concept behind it.

Formula Concept

In the 2003 Legislative Session (effective FY04), New Mexico adopted a "Base Plus/Minus" formula model.

Goals of the new formula are to:

- Support increased access and economic development
- Make the formula easier to understand
- Create incentives for student and institutional success

Components of the Formula

- **Instruction and General Expenditure**
  - Instruction and Instructional Support
  - Student Services
  - Physical Plant Operations and Maintenance

- **Revenue Credits**
  - Land and Permanent Fund (Four-Year Institutions)
  - Mil Levy (Two-Year Institutions)
  - Tuition

Components of the Formula (cont.)

- **Other Formula Expenditures (referred to as "Transfers") Land and Permanent Fund (Four-Year Institutions)**
  - Three Percent Scholarship
  - Building Renewal and Replacement (BR&R)
  - Equipment Renewal and Replacement (ER&R)

- **Inflationary Adjustments**
  - Compensation increases for faculty and staff
  - Group insurance and utilities (new method effective FY08)
  - Library acquisitions, risk management, other cost factors

Mechanics of the Formula: Instruction and Instructional Support

- Each course is assigned an identifier referred to as a CIP code (Classification of Instructional Program), based on national standards; each course is also assigned a common course number that facilitates articulation (transfer of credits).
- Courses are categorized into clusters by NMHED, and clusters are categorized into three tiers based on the estimated, average cost of delivering instruction.
- Student credit hours from the most recent academic year are mapped to the appropriate cluster and tier by level of instruction.
- Institutions are funded based on the total number of student credit hours compared to the base year of the institution.

An Example of Student Credit Hour Distribution for a 4-Year Institution

Tier	Cluster		Level of Instruction		
			Lower	Upper	Graduate
1	0500	Business	3,510	6,037	546
	0800	Education	5,634	8,494	4,466
	1000	Fine Arts	5,935	1,827	0
	1100	Foreign Languages	919	384	15
	1400	Law	0	0	0
	1500	Letters	9,408	2,571	686
	1700	Mathematics	7,280	762	0
	2200	Social Sciences	10,780	7,421	1,663
2	0100	Agriculture	576	1,239	0
	0400	Biology	3,801	1,098	170
	1000	Fine Arts	0	0	4
	1200	Health Sciences	0	1,485	505
	1700	Mathematics	0	0	84
	1900	Physical Science	2,540	0	0
	5300	Trades & Tech	0	0	0
3	0900	Engineering	243	177	0
	1200	Health Sciences	87	0	0
	1900	Physical Science	0	492	151
Total			50,713	31,987	8,290

An Example of Student Credit Hour Distribution for a 4-Year Institution (cont.)

- Student credit hours are summarized by tier and by level of instruction.

Summary of Student Credit Hours

Tier	Level of Instruction		
	Lower	Upper	Graduate
1	43,466	27,496	7,376
2	6,917	3,822	763
3	330	669	151
TOTAL	50,713	31,987	8,290

TOTAL Student Credit Hours 90,990

An Example of Student Credit Hour Distribution for a 4-Year Institution (cont).

- Summary student credit hours are then multiplied by the dollar values according to the level of instruction and tier.

FY 2008-09

	Lower	Upper	Graduate
Tier 1	$130.30	$286.76	$620.64
Tier 2	$194.67	$448.94	$853.92
Tier 3	$313.85	$515.83	$1,364.98

Actual dollar amounts (cost factors) assigned to a credit hour for FY 2008-09

An Example of Student Credit Hour Distribution for a 4-Year Institution (cont.)

- This results in formula Instruction and Instructional Support expenditures

Tier	Level of Instruction		
	Lower	Upper	Graduate
1	$5,663,620	$7,884,753	$4,577,841
2	$1,346,532	$1,715,849	$651,541
3	$103,571	$345,090	$206,112
TOTAL	$7,113,723	$9,945,692	$5,435,494
TOTAL Instruction and Instructional Support			$22,494,908

Example: 43,466 SCHs x $130.30 (Tier 1, Lower Level) = $5,663,620

Calculation of Enrollment-Driven Workload Adjustment:

- Total student credit hours are compared with the total student credit hours in the base year, which varies by institution. The most recent academic year becomes the base year, if an institution qualifies for a workload adjustment; otherwise, the base year does not change.

- Total Instruction and Instructional Support dollars are compared with the total dollars in the base year.

- If the student credit hours OR the Instruction and Instructional Support dollars increase by 3% or more, OR if the student credit hours decrease by 5% or more (note: dollar amount not considered on down-side), an institution qualifies for a workload adjustment.

Mechanics of the Funding Formula: Student Services

- An institution that does not qualify for a workload adjustment is said to "stay within band" and vice versa.
- If an institution qualifies for an Instruction and Instructional Support workload increase or decrease, the institution also gets an adjustment in Student Services funding.
- The difference between the previous year's fall student head count and base year fall head count is multiplied by a flat rate determined annually

FY 2008-09 Student Services cost factor = $383.01

Student Services Example

If an institution qualifies for an Instruction and Instructional Support workload adjustment, then:

<u>Increase Example</u>

Fall 2006 head count = 4,149

Fall 2005 head count = 4,055 (base year)

4,149 - 4,055 = 94

94 X $383.01 = $36,003 workload adjustment

Note: An institution can exceed the band, but get a negative adjustment for Student Services.

Mechanics of the Formula:
Physical Plant Operation and Maintenance

- **Physical Plant Operation**
  - Provides a flat rate per square foot of allowable space
  - Space is eligible if used for Instructional and General purposes
  - Funding rate for FY 2008-09 = $4.21 per square foot
- **Utilities**
  - Average utility cost per square foot is calculated for each institution (has not been updated in recent years and is under review)
  - Average utility cost is applied to eligible space

Physical Plant Operations and Maintenance Example

- **Physical Plant Operation**
  - FY 2006–07 allowable square footage = 575,492
  - FY 2005–06 allowable square footage = 546,265
  - 575,492 – 546,265 = 29,227 increase in square footage
  - 29,227 X $4.21 = $123,046
- **Utilities**
  - Average utility cost per square foot = $1.29 (example)
  - $1.29 X 29,227 = $37,703

Total Plant Workload Adjustment = $160,749 ($123,046 + $37,703)

Mechanics of the Formula: Land and Permanent Fund Revenue Credit

- The Land and Permanent Fund Revenue Credit portion of the formula applies to the constitutionally created colleges and universities that are funded by the formula (NMIMT, NMSU, UNM, ENMU, NMHU, NNMC, WNMU).
- Credit is taken for actual Land and Permanent Fund revenue (for example, actual revenue in FY07 determines FY09 formula).
- If Land and Permanent Fund revenue exceeds the amount calculated for the Building Renewal & Replacement funding level, credit is taken for 1/3 of the excess, with 2/3 remaining at the institution for discretionary use.
- This calculation is compared with the calculation from the prior year to determine an increase or decrease in formula funding.

Mechanics of the Formula: Mil Levy Revenue Credit

- Credit is taken for the mil levy revenue generated by the minimum mil levy required by statute:
  - Branch Community Colleges : 1 mil
  - Independent Community Colleges : 2 mils
- Any additional mil levy revenue generated by voter approved mil levy rates above the minimum remains at the institution for discretionary use.
- This calculation is compared with the calculation from the prior year to determine an increase or decrease in formula funding.

Mechanics of the Formula: Tuition Revenue Credit

- Factors that affect changes in General Fund appropriations:
  - Student enrollment in prior year
  - Institutional tuition rates in prior and current year
  - Legislatively enacted tuition credit percentage for current and
  - upcoming year
  - NMHED minimum tuition rate (resident and non-resident) for current year
  - Local operational mil levy rate for community colleges
- Increase or decrease in General Fund appropriation for each institution:

  Net amount of changes in (1) Tuition Credit Base, (2) Formula Tuition Expenditures and (3) Tuition Rate Increase Assumption.

Note: Please refer to NMHED Procedure for Calculating Funding Formula Tuition Revenue Credit.

Mechanics of the Formula: 3% Scholarship Adjustment

- This adjustment is calculated by multiplying 3% of the previous fall's student head count enrollment by the current annual tuition and fee rate of the institutions (for example, Fall 2006 head count determines FY09 formula transfer).

- This calculation is compared with the calculation from the prior year to determine an increase or decrease in formula funding

Note: Appropriated funds are recorded in Instruction and General and must be transferred to the Student Financial Aid budget exhibit.

Mechanics of the Formula: Building Renewal and Replacement (BR&R) Adjustment

- The Building Renewal and Replacement adjustment is intended to provide an appropriation equal to 3% of the replacement cost of eligible facilities.
  - Eligible facilities include all square footage used for Instruction and General purposes
  - This portion of the formula is currently funded at 70%
  - Eligible square footage for BR&R has been "frozen" since the early 1990s until a 100% funding level is achieved (this "rule" is under review).
- This calculation is compared with the calculation from the prior year to determine an increase or decrease in formula funding.

Note: Appropriated funds are recorded in Instruction and General and must be transferred to the BR&R budget exhibit in Plant Funds.

Mechanics of the Formula: Equipment Renewal and Replacement (ER&R) Adjustment

- Institutions annually submit an inventory of equipment used for Instruction and General purposes; each equipment item is certified as having either a 5-year or 12-year useful life; a total funding amount is calculated.
- If fully funded, the formula would generate 1/5 of the replacement cost for 5-year equipment and 1/12 of the replacement cost for 12-year equipment .
- This portion of the formula is currently funded at 46.5%.
- This calculation is compared with the calculation from the prior year to determine an increase or decrease in formula funding.

Mechanics of the Formula: Summary of Annual Adjustments

Prior Year Base Instruction and General Appropriation

+/-	Instruction and Instructional Support (if "out-of-band")
+/-	Student Services (if "out-of-band")
+/-	Physical Plant Operations and Maintenance/Utilities
+/-	Land and Permanent Fund Revenue Credit
+/-	Mil Levy Revenue Credit
+/-	Tuition Revenue Credit
+/-	3% Scholarship Adjustment
+/-	Building Renewal and Replacement Adjustment
+/-	Equipment Renewal and Replacement Adjustment
+	Inflationary Adjustments, including compensation
+	Other Adjustments (for example Branch phase-in)

= **Recommended General Fund Appropriation for Instruction and General for Next Year**

Higher Education Incentive Funds

- Program Development and Enhancement Fund
  - Provides additional funding for programs through a competitive proposal process; for example, nursing $3.5 million for FY09.
- Higher Education Performance Fund
  - Intended to reward institutions that meet agreed upon performance and outcome standards in areas determined by the Department; for example, minority participation $5 million for FY07 – FY09.

Higher Education Matching Funds

- **Workforce Skills Development Fund**
  - Provides matching funds to community colleges for development, expansion, and support of entry-level high-skills training programs.
- **Technology Enhancement Fund**
  - Provides matching funds to research universities to support innovative applied research in the fields of agriculture, biotechnology, energy, materials science, microelectronics, water resources, aerospace, telecommunications, manufacturing science, and other similar areas

Higher Education Matching Funds (cont.)

- **Higher Education Endowment Fund**
  - Provides matching funds to colleges and universities for endowed faculty chairs, professorships, faculty development, and other purposes. (Formerly named the "Faculty Endowment Fund".)

Note: General Fund appropriations for the Higher Education Incentive and Matching Funds vary each year; some appropriations are for multiple years

For more information on the Higher Education Funding Formula, please contact:

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(Please note that the information in this document is subject to change.)