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June 15, 2010

MEMORANDUM

TO: Legislative Education Study Committee

FR: Ms. Eilani Gerstner

RE: STAFF REPORT: HIGHER EDUCATION FUNDING FORMULA OVERVIEW

The higher education funding formula affects several programs that relate directly to public schools. Specifically, teacher preparation programs and the dual credit program rely on funding allocated to institutions of higher education through the higher education funding formula. While the Legislative Education Study Committee (LESC) has statutory authority over teacher preparation programs and endorsed the legislation that created the dual credit program, the committee has not received a report on the higher education funding formula since the beginning of the 2008 interim.

This staff report will provide an overview of:

- provisions in current law relating to the higher education funding formula;
- the structure of the formula;
- how changes are made to the formula; and
- other funding sources in law.

Following the presentation of the staff report, Mr. Tino Pestalozzi, Deputy Cabinet Secretary, Higher Education Department (HED), will provide an overview of the mechanics of the formula, including how teacher preparation programs and the dual credit program are funded.

Provisions in Current Law Relating to the Higher Education Funding Formula

Unlike the public school funding formula, or state equalization guarantee, the mechanics of the higher education funding formula are not codified in current law. Current provisions in law require HED to:

- “develop a funding formula that will provide funding for each institution of higher education to accomplish its mission as determined by a statewide plan” (see Attachment 1); and
- “be concerned with the adequate financing of these [higher education] institutions and with the equitable distribution of available funds among them” (see Attachment 2).

The law provides for the department to include factors in the formula, which when implemented will achieve a number of objectives, first among them “[improving] the quality of programs central to each institution’s mission.” Again, however, the actual factors are not specified in state statute or rule.

According to HED, the original higher education funding formula was developed in the mid-1970s in order to provide an objective means for determining the funding needs of institutions. In 2002, a Blue Ribbon Task Force was created to revise the mechanics of the formula, which resulted in the current higher education funding formula. According to HED, small modifications have been made to the formula since then.

The Structure of the Formula

Each year, the Legislature appropriates dollars to each public institution of higher education for “instruction and general purposes,” also known as I&G. I&G dollars are calculated through the higher education funding formula, and are based on data from two years prior to the year in which the appropriation is made.

According to HED, there are nine main factors of the higher education funding formula that affect the annual I&G appropriation to each institution:

- instruction and instructional support;
- student services;
- physical plant operations and maintenance/utilities;
- land and permanent fund revenue credit;
- mill levy revenue credit;
- tuition revenue credit;
- three percent scholarship adjustment;
- building renewal and replacement adjustment; and
- equipment renewal and replacement adjustment.

In addition to these factors, appropriations for I&G may be adjusted annually for inflation (including compensation) or other adjustments, such as appropriation reductions to meet state solvency efforts.

Instruction and Instructional Support

According to HED, the instruction and instructional support component of the formula also has nine factors. Student credit hours are categorized into three tiers, based on the estimated, average cost of delivering instruction. Within each tier, there are three instruction levels – lower level, upper level, and graduate. Each tier and instructional level has an assigned funding per credit hour, and institutions receive instruction and instructional support funding based on the total number of student credit hours in each tier and level.

The table below shows the funding per credit hour for each tier and instruction level for FY 11:

	Lower Level	Upper Level	Graduate
Tier 1	\$133.34	\$293.44	\$635.09
Tier 2	\$199.20	\$459.40	\$873.81
Tier 3	\$321.16	\$527.84	\$1,396.77

Source: HED

It should be noted that teacher preparation coursework is funded in Tier 1.

How Changes are Made to the Formula

According to HED, in the event that changes to the higher education funding formula are deemed necessary, the Higher Education Funding Task Force¹ makes recommendations for changes in the formula to the Secretary of Higher Education. HED then includes those recommendations in the annual agency funding recommendations to the Department of Finance and Administration (DFA) and the Legislative Finance Committee (LFC). If the changes are approved by DFA and LFC, the final I&G appropriations to institutions in the *General Appropriation Act* will reflect the changes.

Other Funding Sources in Law

Several funds in law may provide additional funding for specific programs or institutional needs. In particular, dollars in the Higher Education Program Development Enhancement Fund² may be awarded to institutions of higher education to “[expand] instructional programs to meet critical statewide work force and professional training needs.” From 2006 to 2008, the legislature appropriated a total of \$10.5 million to the fund “to address the state’s nursing shortage.”

Although past *General Appropriations Acts* have designated the appropriations to the Higher Education Program Development Enhancement Fund for nursing programs, statute requires HED, in each fiscal year that there is funding available, to define or reaffirm no more than four critical issues to be addressed through awards from the fund. HED is also required to establish

¹ According to HED, the Higher Education Funding Task Force includes representatives from public institutions of higher education, HED, the Council of University Presidents, the New Mexico Association of Independent Community Colleges, the New Mexico Association of Community Colleges, the Office of the Governor, the Legislative Finance Committee, and the LESC.

² Created in 2003, the purpose of this fund is “to enhance the contribution of post-secondary educational institutions to the resolution of critical state issues and the advancement of the welfare of state citizens.”

criteria and procedures for making awards from the fund based on evaluation of competitive proposals submitted by postsecondary educational institutions.

This fund may be of particular interest to the LESC because, since the 2008 interim, the LESC has received reports indicating that New Mexico may need approximately 99 additional mathematics teachers to meet increased mathematics graduation requirements in place for the students who entered their freshman year in school year 2009-2010.

Presenter

Finally, as noted above, Mr. Pestalozzi will provide a presentation on mechanics of the higher education funding formula.

21-2-5.1. Funding formula.

A. The commission on higher education shall develop a funding formula that will provide funding for each institution of higher education to accomplish its mission as determined by a statewide plan.

B. The commission on higher education may include factors in the funding formula, which when implemented will achieve the following:

- (1) improve the quality of programs central to each institution's mission;
- (2) develop and enhance programs that meet targeted post-secondary educational needs and the related needs of public schools;
- (3) eliminate unnecessary, unproductive or duplicative programs;
- (4) consider faculty salaries and benefits adjustment to a competitive level with similar institutions in similar states, when such compensation adjustments are supported by detailed analyses of faculty workloads and educational outcomes assessments, and nonteaching staff salaries and benefits at a competitive level with other similar public or private sector employment in the community in which the institution is situated;
- (5) recognize additional costs incurred through increases in enrollment;
- (6) provide for equipment and equipment maintenance and library acquisitions and operations since the development of the prior funding formula;
- (7) fund off-campus courses and other nontraditional course delivery systems at a level sufficient to allow their development;
- (8) provide incentives to institutions to pursue private or alternative funding sources;
- (9) encourage the sharing of expertise, equipment and facilities and development of joint instructional programs, research and public service projects;
- (10) implement uniform articulation agreements and facilitation of transfer of students between institutions;
- (11) encourage energy conservation;
- (12) require mechanisms to track expenditures to ensure greater accountability; and
- (13) require each institution of higher education that offers distance learning and computer-based courses of study to provide accompanying electronic formats that are usable by an individual with a disability using assistive technology, and those formats shall be based on the American standard code for information interchange, hypertext markup language and extensible markup language.

History: 1978 Comp., § 21-2-5.1, enacted by Laws 1988, ch. 164, § 1; 1995, ch. 224, § 19; 2003, ch. 162, § 1.

21-1-26. Higher education department; general powers.

A. The higher education department shall be concerned with the problems of finance of those educational institutions designated in Article 12, Section 11 of the constitution of New Mexico and other public post-secondary educational institutions in the state. The department shall:

(1) be concerned with the adequate financing of these institutions and with the equitable distribution of available funds among them;

(2) receive, adjust and approve the budgets submitted by these institutions prior to the submission of these budgets to the state budget division of the department of finance and administration;

(3) develop and maintain programs, on a regular basis, for the orientation and in-service education of members of the boards of regents of the various educational institutions designated in Article 12, Section 11 of the constitution of New Mexico and the governing bodies of other public post-secondary educational institutions in the state;

(4) analyze the financial impact of each new degree program of each public post-secondary educational institution as part of the department's review of the institution's operating budget; and

(5) exercise such other powers as may be granted it by law.

B. Effective July 1, 2005, all new state-funded baccalaureate, graduate and professional degree programs shall be offered by public four-year educational institutions and all new associate degree programs shall be offered by public post-secondary educational institutions after a timely and thorough consultation with and review by the department.

C. Notwithstanding any other provisions of law, the higher education department may be designated by the governor to administer funds furnished under acts of congress for post-secondary educational institutions, except for funds specifically appropriated or otherwise designated for those educational institutions enumerated in Article 12, Section 11 of the constitution of New Mexico.

D. The higher education department is also charged with oversight of all private post-secondary educational institutions operating within the state.

History: 1941 Comp., § 55-2714, enacted by Laws 1951, ch. 190, § 1; 1953 Comp., § 73-29-15; Laws 1964 (1st S.S.), ch. 19, § 1; 1985, ch. 43, § 1; 1986, ch. 24, § 2; 1989, ch. 354, § 1; 1994, ch. 108, § 1; 2005, ch. 289, § 15.