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November 15, 2011

MEMORANDUM

TO: Legislative Education Study Committee

FR: Frances Ramírez-Maestas

RE: STAFF BRIEF: PROPOSED REVISION TO HIGHER EDUCATION FUNDING FORMULA

For FY 12, the *General Appropriation Act of 2011* includes language requiring the Higher Education Department (HED) to recommend revisions to the higher education funding formula authorized by Section 21-2-5.1 NMSA 1978, no later than October 15, 2011.

During the June 2011 interim meeting of the Legislative Education Study Committee (LESC), the committee heard a preliminary report from Dr. Jose Garcia, Higher Education Secretary, and Mr. Curtis Porter, Chair of the Higher Education Funding Formula Task Force. Among their remarks:

- Dr. Garcia stated that the Higher Education Department (HED) was considering the creation of three formulas: one for two-year colleges, one for research universities, and a third for comprehensive universities. In any case, he stressed the need to focus on outcomes and performance by creating incentives for student completion and closing the achievement gap; and
- Mr. Porter emphasized that the proposed new higher education funding formula would work much like the old formula but would be driven primarily by outputs, and it no longer uses factors such as square footage and building and repair. He noted that the new formula would shift from 21-day enrollment to completed enrollment, keeping only three or four pieces of the old formula.

Background

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 law. Instead, current statute requires 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”; and
- “be concerned with the adequate financing of these [higher education] institutions and with the equitable distribution of available funds among them.”

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.

In testimony to the LESC during the 2010 interim, HED staff stated that 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. More recently, in 2007, statute was amended to accommodate the dual credit program: “The higher education department shall revise procedures in the higher education funding formula to address enrollments in dual credit courses and to encourage institutions to waive tuition for high school students taking the courses.”

The Current Structure of the Formula: Each year, the Legislature appropriates funds to each public institution of higher education for “instruction and general purposes,” also known as I&G.

Calculated through the higher education funding formula, I&G dollars are based on data from two years prior to the year in which the appropriation is made. During the 2010 interim, HED staff outlined the 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;
- 3.0 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 staff in the 2010 interim, the instruction and instructional support component of the formula also has nine factors. In addition, student credit hours are categorized into three tiers, based on the estimated, average cost of delivering instruction. Within each tier, there are three instructional 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 instructional level in 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, 2010 Interim

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

How Changes are Made to the Formula: As reported to the LESC in the 2010 interim, in the event that changes to the higher education funding formula are deemed necessary, the Higher Education Funding Task Force 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 Fund 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 criteria and procedures for making awards from the fund based on evaluation of competitive proposals submitted by postsecondary educational institutions.