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Dr. José Garcia, Secretary, Higher Education Department
Mr. Curtis Porter, Chairman, Higher Education Funding Task Force
Dr. Daniel López, President, New Mexico Institute for Mining and Technology
Dr. Steve McCleery, President, New Mexico Junior College

ISSUES FOR HEARING **Higher Education Department and Institutions**

- The current higher education funding formula is enrollment-driven and does not incorporate institutional or student outcomes, such as student course completion or degree production.
- The formula is complex and has been changed annually to allocate state funding among institutions.
- The GAA FY2012 requires HED to provide LFC with recommendations on revising the formula by October 15, 2011, though Governor Martinez vetoed the corresponding requirement that the recommendations include student completion and on-time degree completion.
- HED, LFC, and DFA staff and institutional leaders are participating in a Higher Education Funding Task Force and reviewing the formula to
 - simplify it where possible, eliminating some calculations and eliminating factors in others.
 - incorporate outputs and outcome measures that recognize different institutional mission.
 - connect a portion of state funding to achieving outcome measures.
- Unlike past years, **HED, LFC, and institutional leaders agree that outputs and outcome measures should be incorporated into the funding formula.**
- The Task Force is working on the details of
 - (1) Changing the student credit hour matrix that drives the Instruction and General (I&G) workload from only including credit hour enrollment figures to including a combination of credit hour enrollment AND course completion figures. This change recognizes both growth and academic progress.

(2) Identifying outcome measures that reflect different institutional missions – research, comprehensive or regional institutions, community colleges – and determining a level of state funding that should be designated for achieving stated outcome targets and how such funding will be distributed.

Questions to Ask

- How do institutional leaders want the legislature to evaluate success and fund outcomes measures?
 - Only with new money?
 - If there's no additional funding for higher education, then as a small percentage of the base (the prior year's appropriation amount), with increasing amounts phased-in over time?
- Are there incentives institutions want included in any formula revision?
 - Reduced regulatory or reporting burden?
 - Additional funding?
 - Institutions keep any budget savings resulting from state efficiency or productivity gains?
 - Change how the state calculates the tuition revenue credit?
 - Others?
- What do institutions perceive as disincentives to implementing outcomes-based funding?
 - Additional reporting burden without additional funding?
 - Redundancy of reporting efforts (federal, state, and now formula reporting)?
 - No consideration for “hold harmless” or “stop gap” losses in funding if an institution fails to meet outcomes?
- Is there a tentative schedule for implementing formula recommendations?
- Can HED run the current formula if there is no broadly supported formula by October?

LFC HEARING BRIEF

AGENCY: Higher Education Department, Institutions

DATE: 6/17/2011

PURPOSE OF HEARING:
Status Report on Incorporating Outcomes Measures in Higher Education Funding Formula for FY2013 and Beyond

WITNESSES: President David Longanecker, Western Interstate Commission for Higher Education; Secretary José Garcia, HED; Chairman Curtis Porter, Higher Education Funding Task Force; President Daniel López, New Mexico Institute for Mining and Technology; President Steve McCleery, New Mexico Junior College.

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EXPECTED OUTCOME: Legislative Direction on Revising Higher Education Funding Formula for FY2013 and Beyond

BACKGROUND INFORMATION. Reflecting national state budget trends, New Mexico higher education has experienced budget cuts as a greater shares of state general funds go to large, high priority budget items, like health care, Medicaid, and K-12 education. For FY2012, higher education received 13% of the total general fund appropriation (\$716 million) -- a decline of 6% (\$792 million) from FY2011 and decline of 17% (\$853 million) from FY2010. As competition for state funding increases, legislators, the public, and students ask whether institutions can be more efficient and whether funding can be tied to increased productivity.

State government officials and other policymakers have required measuring institutional and student outcomes to gauge productivity. The N.M. Department of Finance and Administration (DFA), in consultation with the LFC, sets performance-based budgeting accountability measures for institutions annually. Institutions report on such measures throughout the year in compliance with the Accountability in Government Act (AGA). High priority performance measures are included among institutional appropriation provisions in the annual General Appropriations Act. Further, five of New Mexico's six, four-year institutions are participating in the national *Voluntary System of Accountability (VSA)* program, which makes accountability information easily accessible to the public. Education Sector's 2009 *Ready to Assemble: Grading State Higher Education Systems* favorably rated New Mexico's performance measures and accountability reporting.

Improving reporting and accountability measures does not guarantee improved institutional efficiencies or productivity. Legislators, LFC and HED are leading a comprehensive review of the state's higher education funding formula with a focus on incorporating incentives for institutions to achieve institutional and student outcomes measures. Institutional leaders, HED, and LFC agree that the formula can be revised to include student outputs, like course completion, instead of simply course enrollment. More difficult, but equally important, the interests are working to identify meaningful outcome measures that can be connected to funding.

This hearing will include

- (1) a review of other states that condition funding on outcomes,
- (2) an update on possible state formula revisions, including identifying possible outcome measures, and
- (3) a plan to meet General Appropriation Act for FY2012 (GAA FY2012) requirement that HED provide to LFC formula recommendations by October 15, 2011.

NEW MEXICO'S CURRENT FUNDING FORMULA

Higher Education Funding Formula Goals

- Improve quality of programs central to institutional missions.
- Improve programs to meet targeted statewide needs, eliminate unnecessary, unproductive or duplicative programs.
- Consider faculty salary increases supported by analysis based on peer institutions, workload, and educational outcomes.
- Recognize costs from enrollment increases.
- Provide equipment, maintenance, and library funding.
- Fund off-campus courses.
- Provide incentives for pursuing alternative funding sources.
- Facilitate student transfers.
- Encourage energy conservation.
- Promote greater accountability by tracking spending.
- Make computer-based distance education accessible.

Source: Section 21-2-5.1(B) NMSA 1978

Recent Funding Formula Reviews and Recommendations. In 2004, New Mexico's I&G funding formula (formula) was significantly revised. [Att. 1, Current and Proposed Formula] The state uses the formula to calculate the costs associated with providing public, post-secondary instruction and to allocate total state funding among the research and comprehensive universities and two-year institutions, both independent community colleges and branches of the four-year institutions.

The formula is input-based, meaning that all formula components reflect costs to provide instruction and other general expenditures without regard for results of such expenditures, outputs, or outcomes. Formula "workload expenditures" include

- (1) the costs for instruction based on a student credit hour matrix, weighted by lower, upper and graduate course enrollments;
- (2) general expenditures including academic support, student services, institutional support, and plant operation and maintenance costs; and
- (3) calculations for state scholarship support, building renewal and replacement (BR&R), and equipment renewal and replacement (ER&R).

After totaling the I&G workload expenditures and calculating the change in workload from the prior fiscal year, the state considers institutional revenues (tuition, Land and Permanent Fund revenues for constitutionally-created universities, and mil levy revenue for community colleges) and credits a percentage of revenues against the total workload expenditures. This revenue credit and adjustments to state waiver and other programs determine the final General Fund I&G appropriation. Where overall higher education funding has declined, the state prioritizes I&G funding for institutions over funding ancillary institutional activities, such as research and public service projects, athletics, and other functions.

Interim Legislative Session 2010. During the 2010 Interim, the LFC held an October 2010 hearing on the state's higher education I&G funding formula. A funding task force recommended a number of technical changes to the formula. The LFC staff recommended more significant changes, such as including a focus on student outcomes, considering all institutional revenues when calculating the state's funding obligation, and identifying institutional efficiencies in delivering educational courses and limit campus growth for duplicative programs. See LFC's Vol. II, Appropriation Recommendation for FY2012, pp. 334-336, 348-350.

FY2012 Formula Implementation and Policy Changes. For FY2012, the I&G state appropriation was nearly \$590 million, less legislative adjustments for pension and unemployment insurance obligations. This

was 2.6% less than the FY2011 operating budget. Total appropriation for higher education institutions (excluding HED) approached \$695 million, excluding the legislative adjustments.

The I&G funding level calculated by the funding formula was adjusted downward during the 2011 Legislative Session. The adjustments reflected a number of policy decisions, including those recommended at the Interim 2010 hearing, such as considering a two-year average student credit hour enrollment level. Other adjustments included an increase in the tuition amounts the state would credit towards state support, a reduction in fully funding the number and type of high school dual credit courses funded, and significant reductions in funding both the nondiscrimination tuition waiver and the nonresident, part-time student tuition waiver. These policy decisions negatively impacted I&G funding for some community colleges and comprehensive colleges more than other institutions, though prior year funding decisions negatively impacted other four-year institutions' I&G funding.

HED's Funding Formula/State Workforce Summit. Following the 2011 Legislative Session, HED hosted a meeting of state legislators, institutional leaders, business leaders, and select DFA and LFC staff to discuss state workforce needs and ways to align institutional outcomes that address and support state workforce priorities.

Secretary Garcia opened the meeting by highlighting the gap between the state's and residents' significant investment in higher education and low rate of return – failing to increase per capita income, to make significant in the graduation rate of 41% (over 6 years), or to meet workforce needs. He asked participants to consider undertaking a review of the state's funding formula with a goal of incentivizing institutional and student performance to meet workforce needs. Importantly, workforce needs include increasing the total number of college graduates or certificate holders in the state, emphasizing particular high-demand skill sets and concentrations. To further this goal, Governor Martinez and HED leadership support for the National Governors Association's (NGA's) *Complete to Compete* accountability and outcomes-based agenda for higher education.

As the meeting facilitator, David Longanecker, president of the Western Interstate Commission for Higher Education (WICHE), presented recommendations on revising New Mexico's I&G funding formula. Based on other states' formulas, New Mexico's funding history, and current formula, he recommended that

- the formula include the amount of state funding and institutional tuition revenues;
- both the state appropriation and institutional revenues are considered when determining the “workload base” funding;

**National Governors
Association
Complete to Compete:
Common College
Completion Metrics
(June 2010)**

Outcome metrics:

- Degrees and certificates awarded;
- Graduation rates;
- Transfer rates; and
- Time and credits to degree.

Progress metrics:

- Enrollment in remedial education;
- Success beyond remedial education;
- Success in first-year college courses;
- Credit accumulation;
- Retention rates; and
- Course completion.

"The new funding formula for New Mexico should be part of an integrated financing strategy that assures institutional viability and affordability for the state and its citizens ... [and] drive change in New Mexico higher education toward the state's explicitly established objectives. This suggests that significant performance based funding towards the state's desired outcomes needs to be imbedded in these policies."

*David Longanecker, WICHE
NM Formula/Workforce Summit*

- performance or outcomes measures should be included in the "workload base" budget and on funds above the "base" level;
- a "hold harmless" or "stop loss" provision should be incorporated so that no institution will lose a set percent of support during the time the formula changes are implemented; and
- state financial aid policies should be reviewed for effectiveness, advancing state policies, and addressing state needs and revised accordingly.

After this meeting, HED directed a Funding Task Force (Task Force) and various working groups to revise the funding formula to incorporate outcomes measures.

States Condition Funding on Achieving Outcomes.

Review of states conducted by HED Funding Task Force. In May, the Task Force directed a working group of institutional leaders and HED and LFC staff to report on states that have made a comprehensive effort to connect or base state funding to outcomes measures. This group reviewed legislation, regulations, and funding policies from Ohio, Tennessee, Texas, and Washington and presented findings to the Task Force last May.

State Formula Findings. Most of the states reviewed have conducted extensive, inclusive planning processes to identify state priorities and workforce needs. Since then, the states have revised their respective higher education, instruction-driven, funding formulas to address statewide planning priorities. All four states' formula schemes include or will include upon full implementation:

- A "workload base" that reflects prior year funding including both a student enrollment component and student outputs,
- Protections or "hold-harmless" provisions to provide stability in state funding during the formula implementation phase,
- Separate formulas or formula components that distinctly address and support the missions of four-year research and regional/comprehensive institutions and two-year community or technical colleges, and
- Components to compensate for plant and facilities, operations and maintenance, and utilities.

Consistent with each state's legislative and policy histories, state funding formulas also consider institutional revenues, such as tuition and fees. For example, Washington's annual budget legislation specifies tuition caps at each university and generally at community colleges. Tennessee's formula holds that university tuition will cover 45% of instructional and physical plant costs and community college's tuition will cover 33% of the same costs.

**States that Link
Accountability Information
to Funding & Provide
Funding**

"Best Practice" States:

Pennsylvania
Tennessee

"In Progress" States:

Alaska
Arkansas
Colorado
Hawaii
Indiana
Kansas
New Mexico•
North Dakota
Ohio
Oklahoma
Oregon
Texas
Virginia
Washington

- New Mexico is listed as "In Progress" because of the legislated Higher Education Performance Fund and a former appropriation to the Fund.

Source: Education Sector, *Ready to Assemble: Grading State Higher Education Systems* (June 30, 2009)

State Funding Tied to Outcomes Measures. All states' formulas include a component or program that conditions state funding on institutions meeting stated outcome measures. The portion of state funding connected to outcomes measures ranges from 80% (Tennessee) to 5-10% (Washington, for community colleges, and Texas). For states with four-year or university measures, the formula funding incentivizes degree completion and at-risk student success, among other measures. For states with community college measures, the formula or program funding incentivizes degree or certificate completion, student progression (completing remedial or basic education, math, or literacy courses achievement tests or accumulating 15 or 30 credits/year), and transfer rates to four-year institutions, among other measures. In these states, workforce training or related outcomes are measured, but not attached to specific funding awards.

Including Outcomes in New Mexico's Funding Formula

The GAA FY2012 requires HED to provide the legislature with recommendations for revising the formula by October 15, 2011. To meet this deadline, HED has called regular meetings of the Task Force to develop formula revisions and specifically develop a way to incorporate outputs and outcomes into the formula.

Including Student Completion Data in the Formula. Echoing LFC's strong recommendation at a October 2010 Interim Hearing, Task Force participants approve the transition from calculating instructional workload based on student course enrollment to incorporating student course completion, an output-based measure. This marks an important change in the formula discussion, demonstrating significant agreement among the institutions, HED, and LFC.

The current formula only considers enrollment or growth and does not account for students completing enrolled courses. A recent LFC report conservatively estimated that instruction workload for enrolled, but not completed, courses is about \$43.6 million annually, or almost 10% of the annual I&G appropriation. Ohio, Tennessee, Texas and Washington all continue to consider enrollment-drivers, though course completion has been incorporated gradually into their respective instructional workload formulas.

The Task Force has yet to discuss the details of this proposal. For example, HED and institutions will determine whether student completion data is currently available. Others will study and determine how the student credit matrix may include a ratio of enrollment to output data and how the ratio should be changed over time to place a greater weight on completion. Institutions will also review institutional enrollment and completion policies to take full advantage of changes to the student credit hour matrix.

Possible Mission-Specific Outcome Measures

Research Universities:

- Number of graduate degrees awarded
- Faculty performance: external dollars or number of research grants secured, percent participating in post-doctorate work
- Retention rates: first year, from time declaring a major/accepted by college for degree program to completion
- Percent of students employed in their field within 9 months of graduation or pursuing a graduate degree

Comprehensive Universities:

- Degrees/certificates earned in 6 years
- Degrees/certificates earned in mission-specific programs, teaching, social work, or the like
- First-time pass rate on standardized test where required by profession (nursing, teaching)
- Retention rates: first year and from time declaring a major/acceptance by college to degree to completion
- Percent of students employed in their field within 9 months of graduation or pursuing graduate degree

Community Colleges:

- Number of students completing basic math and literacy courses or passing pre-college competency tests
- Number of students completing 15 credits/year, or 30 credits over 2 years
- Number of certificates and degrees earned
- Transfer rate of students to four-year institutions

During the Interim Session, HED, LFC, and the institutions will address these questions and begin analyzing student credit data to prepare recommendations due by October.

Tying Mission-Specific Outcomes Measures to State Funding. Separate from incorporating outputs into the instructional workload, HED proposed and institutional and agency participants concurred that outcome measures should be developed and attached to a level of state funding. These outcomes measures should reflect the different missions of research universities, comprehensive universities, and community colleges. Decision-makers from the three institutional sectors have been meeting to identify the outcomes that should be applied to their students and institutions. While institutions comply with federal and state government reporting requirements, institutional leaders will determine whether data currently collected includes data on the selected outputs and outcomes. By this summer's end, the sectors will identify and recommend outputs and outcomes, with HED, DFA, and LFC reviewing and possibly recommending additional institutional outputs and outcomes, for inclusion in the formula.

While there appears to be concurrence that some state funding will be conditioned on institutions achieving outcome measures, the Task Force has yet to discuss any details of how this may be achieved. Concurring with Longanecker's presentation last March, both HED and LFC suggest that a minimal level of funding, such as 2% to 5% of base or new funding, be connected to outcomes. Institutional leaders strongly disagree. Many institutional leaders urge that no portion of existing or base funding should be conditioned on meeting outcomes – new funding alone should be connected to outcome measures. They note that outputs (example, student course completion data) will and earned funding from achieving outcomes can be incorporated into the base I&G funding amounts over time, as the formula is run annually during the budget cycle. However, other institutional leaders have stated that sector-endorsed outcomes should be incentivized and measured, even in declining revenue years or not only when additional funding is available.

Further, there has been no discussion or agreement on how funding dedicated to achieving outcome measures will be administered, distributed, or valued. When valuing outcomes achievements, some leaders have suggested that various sector outcomes should be weighted, for example, that degrees should receive more consideration than the number of students demonstrating academic progress. When considering the funding source or mechanism, the Task Force should discuss whether the legislatively-established Higher Education Performance Fund, 2003 Session Laws, Chapter 388, could be restructured and used to facilitate the funding-outcomes component of higher education funding. Much more discussion

is required to develop the mechanism and valuation of funding outcomes measures.

Interim Work Plan and Next Steps.

The Task Force and work groups will continue to meet regularly to

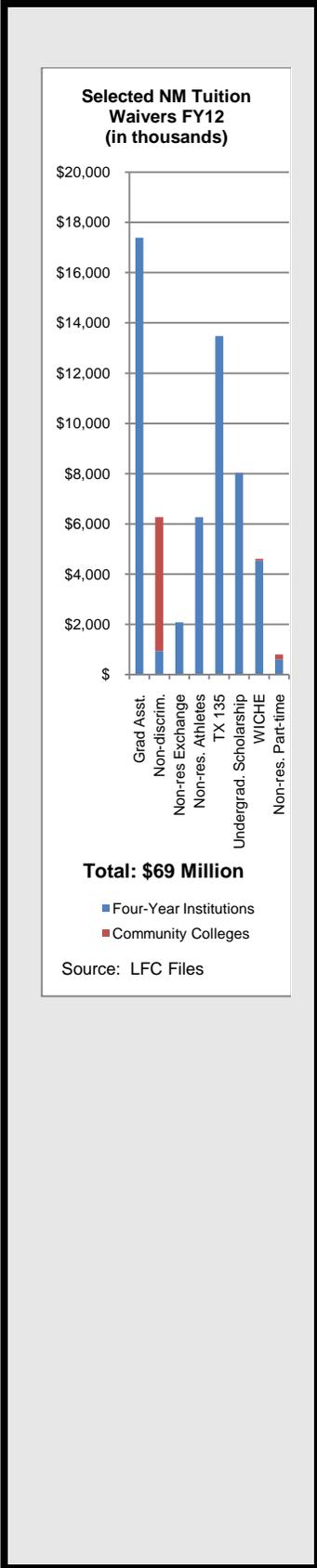
- develop a plan to incorporate student credit hour completion data in the formula,
- develop recommendations on revising discreet issues currently included in the formula, such as the calculation of plant and facilities utilities, operation and maintenance and incentivizing energy savings and efficiency gains,
- identify outcomes measures appropriate for research universities, comprehensive or regional universities, and two-year colleges, and
- develop a proposal to assign values to selected outcomes and administer outcomes-based funding.

Related Formula Issues to be Discussed. While this hearing focuses on the state’s inclusion of outputs and outcome measures in the state funding formula or other means, the Task Force has identified other important funding and policy issues that need to be considered, perhaps some at a later date.

Revenue Credit. Restating the recommendations of prior funding work groups, institutional leaders continue to recommend eliminating or, at a minimum, simplifying the revenue credit calculations as part of the formula. Others recommend changing the revenue credit to include other sources of institutional revenue, such as fees, reimbursed indirect costs, and institutional fund income, in addition to considering tuition, mil levy, and Land & Permanent Fund transfers. By ignoring all revenues available for I&G and institutional support, institutional budgets and appropriations are treated differently than state agencies where other agency revenue sources are considered during the budget process.

Tuition Waivers. A thorough review of the state and institutional policies and practices to fund and implement programs waiving out-of-state tuition rates as part of the revenue credit calculation should be conducted. Changing waiver program funding levels or program administration on an annual basis can affect institutions very differently. For FY2012, the largest tuition waiver programs totaled \$69 million of the total I&G appropriation, and this figure was much higher in prior years.

Dual Credit. Through both the K-12 and I&G funding formulas, the state currently funds school districts and higher education institutions for students enrolled in dual credit courses and programs. Efficiencies in funding should be considered so that the state is funding institutions at appropriate levels for these courses.





Funding state administrative functions performed by institutions and research and public service projects (RPSPs). For FY2012, nearly \$100 million in state funding was allocated for RPSPs and state administrative functions performed at colleges and universities. While calculated outside the I&G funding formula, these projects and functions impact overall higher education funding. A review of projects may result in a transfer into I&G and a more stable funding basis for those constitutionally and statutorily-required state agencies or functions administered by institutions.

QUESTIONS

- How do institutions want the legislature to evaluate and fund outcomes measures?
- What incentives do institutions want included in any formula revision?
- What do institutions perceive as disincentives to implementing outcomes-based funding?
- Is there a tentative schedule for implementing formula recommendations?
- What happens if there isn't a proposed formula by the October deadline? Can HED run the current formula easily?

THT/amm

Attachment 1: Current Proposed Formula

ELEMENTS OF CURRENT FORMULA (compared to prior FY)
Prior Year Appropriation
I&G Workload Base
* Student Enrollment Matrix (based on 2-year enrollment average) -- Includes Course enrollment, weighted course levels & cost Academic Support Institutional Support
* Student Services, calculated based on student count (latest year)
* Plant/Facilities O&M, utilities calculated on per square foot basis
I&G Transfers
* 3% scholarship (funding not adj. for FY12) * BR&R (funding not adj. for FY12) * ER&R
Revenue Credits
* Land and Permanent Fund
* Mil Levy
* Tuition - adjusted for waivers, dual credit
Inflationary Adjustments - Carried in/added to base
Compensation
Insurance
Library
Other
Legislative Adjustments - Applied to Institutions
Education Retirement Board benefit contributions
Unemployment insurance

PROPOSED ELEMENTS OF DRAFT NEW FORMULA (compared to prior FY)
Prior Year Appropriation
I&G Workload Base
* Amended Student Enrollment/Completion Matrix (term TBD) including Academic Support, Institutional Support incorporate Student Services to the Matrix reduce cost factors in Matrix by percentage to account for "marginal costs"
* Physical Plant, includes Operations and Maintenance (based on existing per square foot) and Utilities (based on actuals)
I&G Transfers
* NOTE: ER&R, BR&R, 3% scholarship carried forward in FY12/"workload base" appropriation. No longer calculated separately under formula.
Revenue Credits
* Percentage allocation of total costs between state and institution-generated revenues.
* No calculation of waivers or credits
* Other proposals offered for consideration
Inflationary Adjustments - Carried in/added to base
Compensation
Insurance
Library
Other
Legislative Adjustments - Applied to Institutions
Education Retirement Board benefit contributions
Unemployment insurance
Outcome-Based Funding (NEW COMPONENT, amount in year 1 to be absorbed in future year base)
* proposed for funding above base (here, FY12 funding level)
* Outcome measures identified by HED, LFC, institutional sectors
* separate fund, outside of "workload base" portion of formula until/unless embedded in workload for following FY