

New Mexico Higher Education Funding Sustainability Study



Prepared for the New Mexico Higher Education Department

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Executive Summary

New Mexico's Higher Education Department (NMHED) asked NCHEMS to conduct a comprehensive funding formula review with a focus on resource adequacy and institutional sustainability. Adequacy was defined as the ability of each institution to maintain the value of its assets, offer its programs at high levels of quality, and provide the support services necessary to assure student success. NCHEMS examined current funding policies and practices, and calculated estimates of adequate funding amounts using an adequacy framework and model previously employed in other states. The model is carefully designed to account for a wide variety of costs that institutions face in providing high-quality education and services to their state and community. The NCHEMS work was collaborative, involving NMHED staff, institutions, and an advisory group comprising stakeholders from all sectors of higher education in the state. However, the recommendations in this report remain those of NCHEMS.

The analysis found that many institutions in New Mexico do not receive adequate funding from the state and tuition to cover baseline expenses. To address adequacy, NCHEMS provides the following key recommendations:

- Continue to productively engage all stakeholders in funding model reform.
 - Achieving statewide funding adequacy must be a more nuanced process than simply increasing state support. Factors such as tuition revenue, local funding, and institutional costs must also be considered.
- Enact funding policies to close adequacy gaps across institutions, with a priority on institutions that are most financially fragile.
 - When new funding is available, it should be targeted to where it can have the most impact.
- Align state appropriations, state financial aid, and tuition-setting policies.
 - Ensure that all policies and processes align to achieve state goals.
- Focus on resourcing institutions to increase performance.
 - For any performance formula to be as effective as possible, institutions need a minimum level of funding.

Overall, the NCHEMS study identifies funding needs and potential policy reforms within the New Mexico higher education system. While the state formula and financial aid policies provide a strong foundation, achieving adequacy and long-term sustainability will require action from policymakers, institutions, and stakeholders. This report's recommendations outline strategic options for New Mexico to adequately fund its higher education institutions, enhance student outcomes, and advance the state's broader educational needs and economic goals.

Introduction and Background

Nationally, state and local funding for higher education reached nearly \$130 billion, with an additional \$14.9 billion in state funding for financial aid programs in 2023.ⁱ Many local communities also support higher education through an additional \$12 billion in local appropriations.ⁱⁱ New Mexico provides support to its public postsecondary education through state appropriations, financial aid, and local appropriations, totaling approximately \$1.7 billion in public support in 2023.ⁱⁱⁱ The total state investment in higher education represented about 13.2% of all of New Mexico's state expenditures in that same year.^{iv} The scope of these investments and the pivotal role that they play in supporting talent development for the state mean that regularly revisiting the state's approach to funding higher education is imperative.

To be sure, state investments in higher education play a significant role in workforce and talent development in all states. People with postsecondary credentials are more likely to be employed^v; a trend that is especially notable during economic downturns such as the Great Recession and the COVID-19 pandemic.^{vi} The National College Attainment Network estimates that each additional postsecondary graduate in New Mexico raises the state's GDP by nearly \$130,000, broadens the state's tax base, and increases home values.^{vii} New Mexicans have a vested interest in ensuring their publicly supported institutions of higher education continue to open opportunities for students to live, work, and thrive in New Mexico.

To support this interest, taxpayers make significant investments in higher education as a tool for maintaining a healthy statewide economy and workforce. In turn, the state must ensure that it delivers those dollars to postsecondary institutions and students in ways that most fully support higher education's intended role in talent development for all New Mexicans. New Mexico has a robust history of supporting higher education from individuals (through their tuition dollars), local communities (through property taxes), and the state (through general fund appropriations and financial aid). Together, these sources of funding comprise the main revenue sources for public higher education in New Mexico, as illustrated in Figure 1.

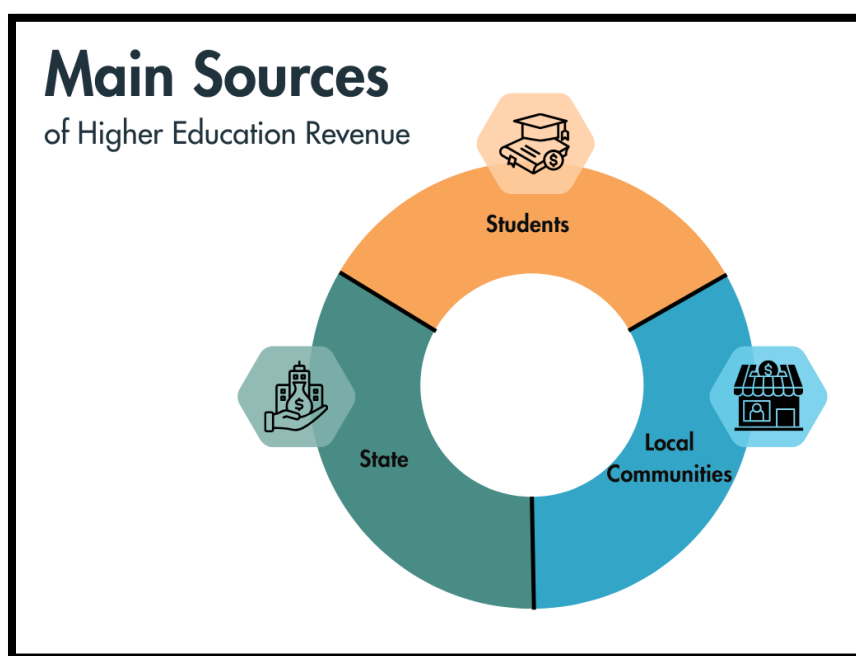


Figure 1: Main Revenue Sources for Higher Education

With these investments, the state has also empowered the New Mexico Higher Education Department (NMHED) to “be concerned with the adequate financing of [public institutions] and the equitable distribution of available funds among them” (NM Stat § 21-1-26 (2023)). To achieve

this, HED allocates available state funding to institutions through various mechanisms. Over time, the proliferation of different state funding mechanisms for higher education has made it increasingly difficult to assess the extent to which the institutions are being funded adequately or equitably. To address this question, the state issued a request for an external vendor to complete a study of two specific funding streams from the state: Research and Public Service Projects, or RPSPs, and the Instruction and General (I&G) funding base. As described in the Request for Proposals, the study is intended to “determine the existence of base funding inequities and make recommendations to resolve such inequities.” The study must also include a national review of performance funding practices and provide recommendations to improve New Mexico’s performance funding formula.

By examining these questions, this report represents a significant step towards developing an intentional higher education funding strategy for the state of New Mexico, one that empowers NMHED to fulfill its statutory obligation. In this report, we use data and evidence to recommend methods to deliver state taxpayer dollars to postsecondary institutions in ways that ensure not only the maintenance of significant state assets but also the vibrancy of one of the state’s main talent development engines.

The report opens by describing the state’s current approach to higher education funding. The state’s current approach brings together revenues from many different sources; however, the extent to which it strategically braids that funding together towards common statewide objectives is limited. To contextualize New Mexico’s funding approach, we also provide comparisons to other state funding models. Overall, we find that New Mexico’s process may benefit from adjustments to cost-sharing targets, performance measures, and program-level funding processes that could strengthen funding as a strategic lever. Following the state comparisons, we share findings from a robust study of higher education funding adequacy and equity for New Mexico. Overall, we find that the public higher education institutions in New Mexico are very efficient in their use of both tuition, state, and local revenue. We close the report with recommendations for the state and HED to consider. A companion report to this study examines the role of Research and Public Service Projects (RPSPs) and how they can be more fully integrated into a strategic statewide approach for higher education funding.

Current Funding Approach

Public higher education institutions in New Mexico receive revenue from many sources. In this report, we focus on the revenues that institutions receive from students through tuition, local communities, and the state. Within each of these three sources, a variety of mechanisms are used to generate and/or allocate revenue that can be used to support institutions. Each of these revenue sources is listed in Figure 2 below. In the sections that follow, we provide further information and context about each funding source, using data from Fiscal Year 2021-2022, the most recent year for which data from all necessary sources are available. This section is meant to provide a baseline understanding of how New Mexico currently funds higher education.

Main Sources

of Support for Public Higher Education

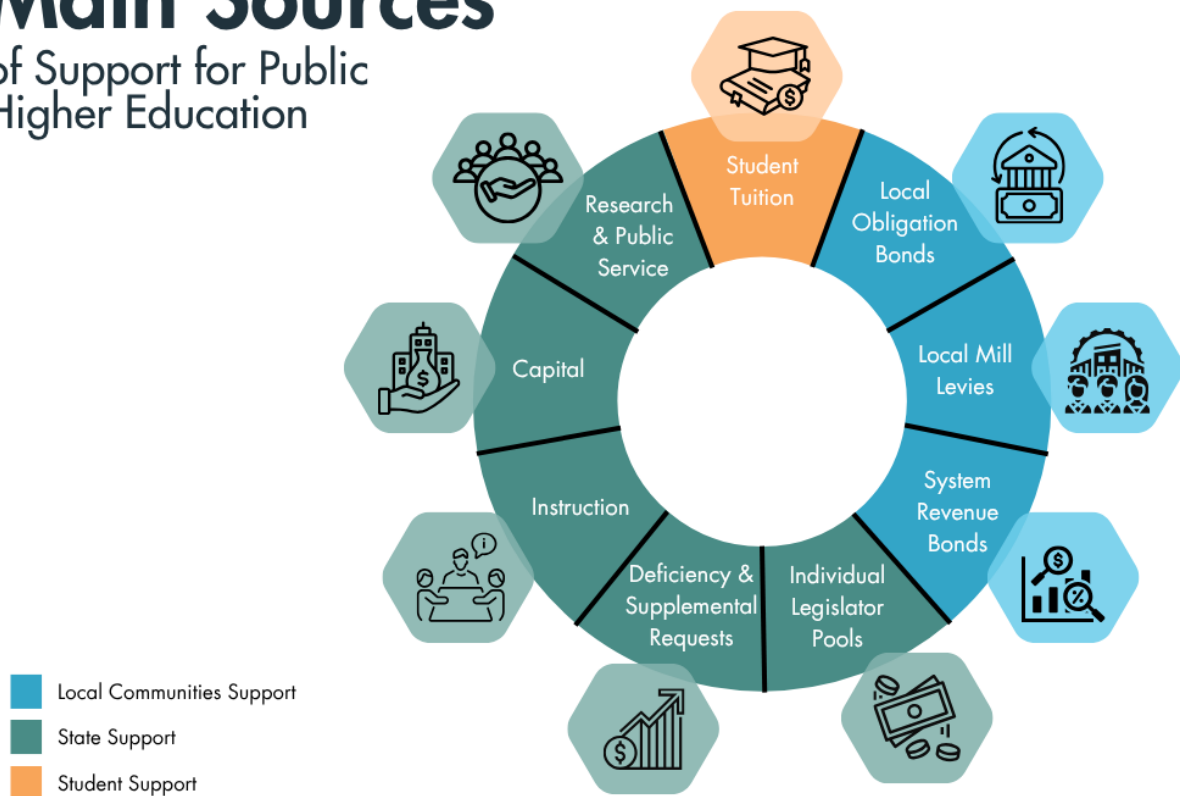


Figure 2: Student, State, and Local Funding Sources for Higher Education

Funding Source Details

To support a thorough and common understanding of the state's current higher education funding environment, we define each of the funding sources described in Figure 2, as well as the state and/or local policy context surrounding them.

Student Tuition

Revenue from students is derived from tuition, which students generally pay with a combination of financial aid (grants, scholarships, and/or loans) and their own resources.

In New Mexico, state statutes (NM Stat § 21-1-2 (2023); NM Stat § 21-1-4 (2023)) grant the authority to set tuition rates to the Boards of Regents for the University of New Mexico, New Mexico State University, New Mexico Highlands University, Western New Mexico University, Eastern New Mexico University, and the New Mexico Institute of Mining and Technology. The independently governed community colleges (Central New Mexico Community College, Clovis Community College, Luna Community College, Mesalands Community College, New Mexico Junior

College, and San Juan College) have the authority to set and adopt their tuition rates without statutory permission.

While each of these boards has the authority to set and charge tuition, they have historically kept any increases to a minimum. Indeed, the rates charged in New Mexico are among the lowest in the nation. This is due at least in part to the structure of the state financial aid programs in New Mexico, the amount of which is determined by the in-state tuition rate. Figures 3 and 4 illustrate that for four and two-year institutions in New Mexico, in-state tuition and fees, when adjusted for inflation, have remained relatively stable since 2019, with a recent decrease from 2021 to 2022.

Figure 3: NM Average In-state tuition and FTE Enrollment (Inflation-adjusted)

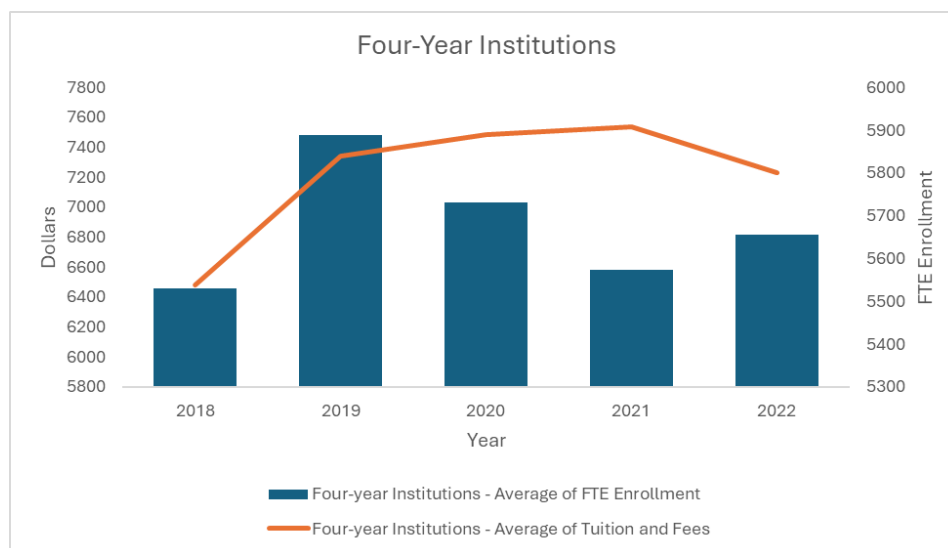
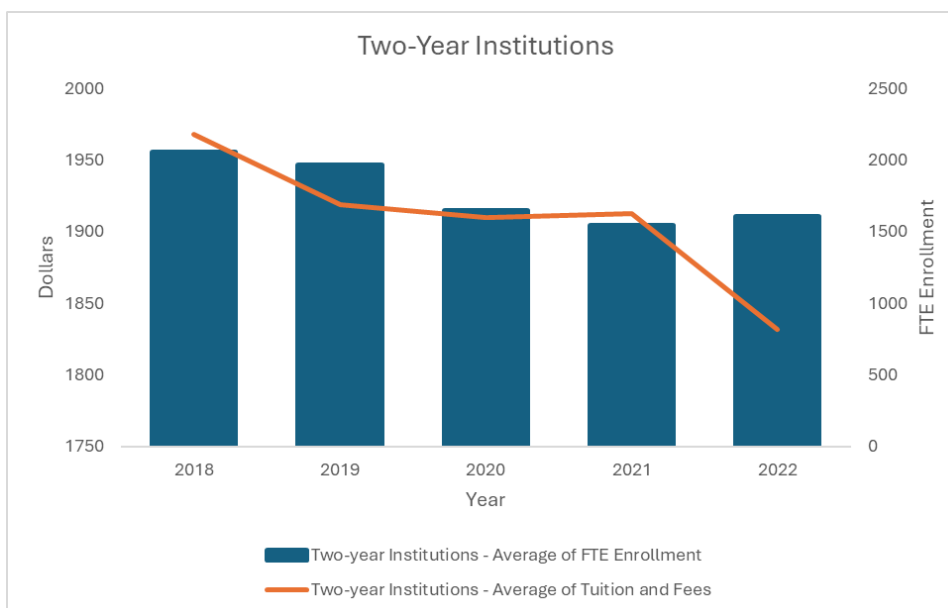


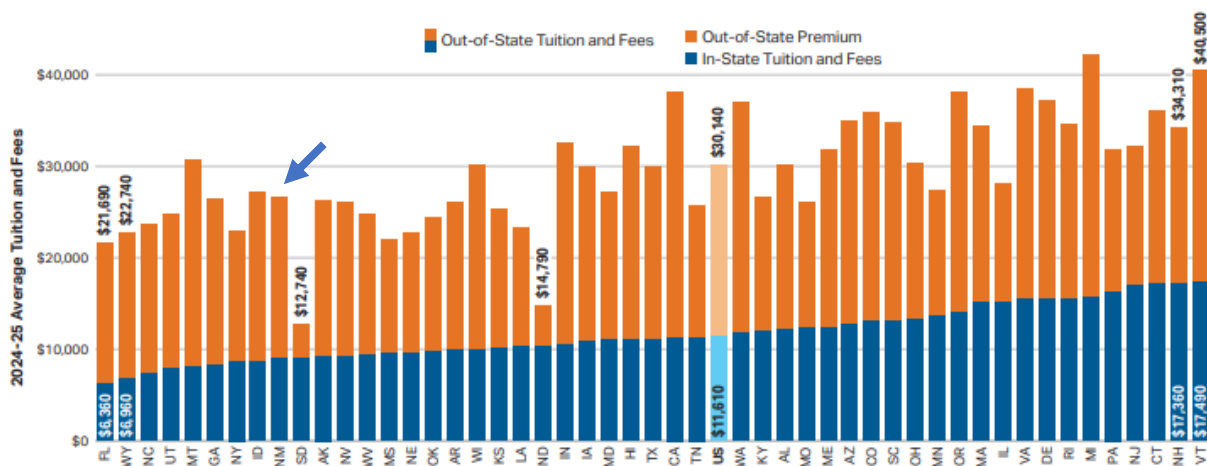
Figure 4: NM Average In-state tuition and FTE Enrollment (Inflation-adjusted)



New Mexico's two- and four-year institutions have average tuition and fee rates that are below the national average compared to other states (Figures 5 & 6). Furthermore, in-state tuition and fees in New Mexico remain relatively stable after accounting for inflation (Figure 6).

Figure 5: Average Tuition and Fees at Public Four-Year Institutions – State Comparison

FIGURE CP-6 Average 2024-25 Tuition and Fees (Enrollment-Weighted) at Public Four-Year Institutions and 2019-20 to 2024-25 Five-Year Percentage Change in Inflation-Adjusted In-State Tuition and Fees, by State



Source: Collegeboard – Trends in College Pricing and Student Aid 2024 -

<https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf>

Figure 6: Average Tuition and Fees at Public Two-Year Institutions – State Comparison

FIGURE CP-5 Average 2024-25 In-District Tuition and Fees (Enrollment-Weighted) at Public Two-Year Institutions and 2019-20 to 2024-25 Five-Year Percentage Change in Inflation-Adjusted In-District Tuition and Fees, by State

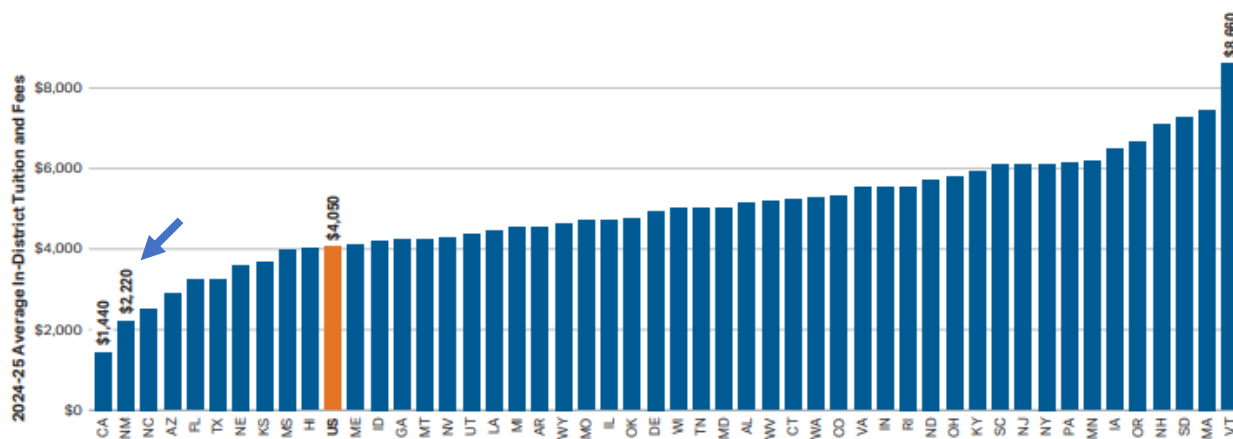
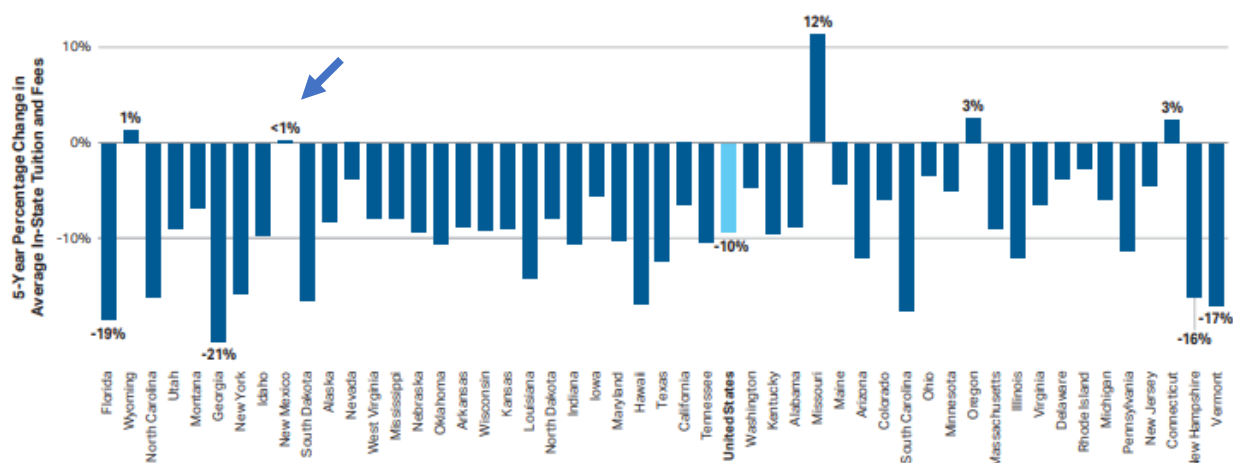


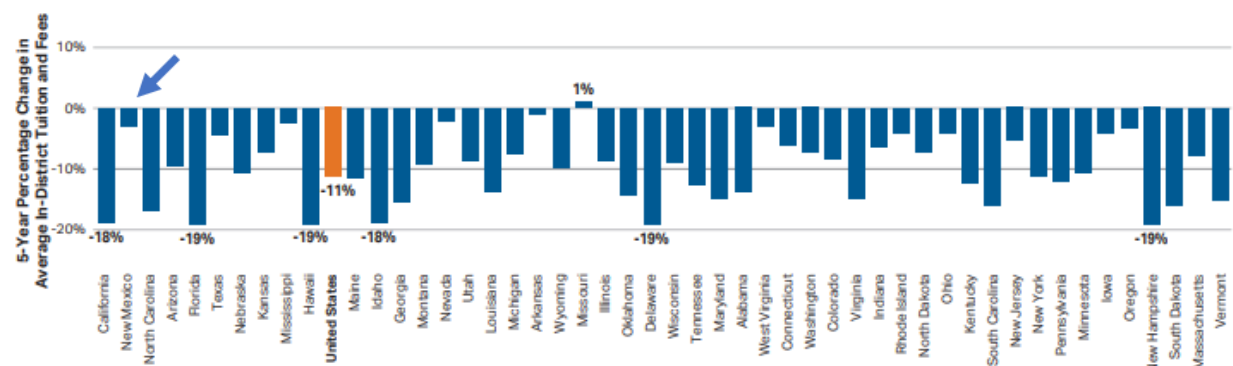
Figure 7: 5-Year Percentage Change in Average Four-Year Published In-State Tuition and Fees



Source: College Board – Trends in College Pricing and Student Aid 2024 -

<https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf>

Figure 8: 5-Year Percentage Change in Average Two-Year Published In-District Tuition and Fees



Source: College Board – Trends in College Pricing and Student Aid 2024 -

<https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf>

Importantly, the state of New Mexico provides direct support to students to defray tuition costs through the Opportunity Scholarship. The Opportunity Scholarship covers up to 100% of the cost of tuition and fees at public institutions in the state. Since the scholarship is awarded to students, it is counted as institutional revenue from tuition throughout this report.

Local Sources

All independent community colleges, branch campuses, and Northern New Mexico College generate local funding through one or more of the following vehicles: local obligation bonds, local mill levies, or system revenue bonds. In a general sense, the ability of a local community to generate revenue for higher education is a function of the community's economic strength, its land resources, and the local voters' willingness to allocate resources to the local institution. Table 1 illustrates how Mill Levy rates differ between branch campuses and the independent community colleges, with the latter being permitted to charge a higher mill levy by state statute. Additionally,

access to oil, gas, and mineral resources can significantly impact revenue generation for institutions. A region's wealth and land resources are closely tied to an institution's ability to access revenue. Due to the variability of revenue resources, this can lead to perpetual funding inequalities across the different institutions. This issue is particularly important because only Mill Levy revenue, and not bonds, can be used for general operations. This table does not include local obligation or system revenue bonds, which are allocated only to capital expenditures and not to Instruction and General costs.

Table 1: FY2022 Mill Levy Rates and Revenues

		Mill Levy Rates			
	Institution Name	FY22 Max Allow Revenue	Residential	Non-Residential	Oil, Gas, Copper, & Equipment
Four-year					
	Northern New Mexico College	\$1,639,934	2	1.842	2
Branch Campus					
	New Mexico State University-Dona Ana	\$6,277,572	1.23	1.25	N/A
	University of New Mexico-Valencia	\$3,345,983	1.94	2	N/A
	University of New Mexico-Taos	\$2,460,217	1.954	1.886	N/A
	University of New Mexico-Gallup Branch	\$1,644,263	1.93	2	2
	University of New Mexico-Los Alamos	\$1,621,336	1.819	2	N/A
	Eastern New Mexico University-Ruidoso	\$1,489,352	1.865	1.867	N/A
	Eastern New Mexico University-Roswell	\$1,259,729	0.872	1	1
	University of New Mexico-Gallup Career Tech Ed.	\$821,997	0.964	1	1
	New Mexico State University-Alamogordo	\$775,614	0.82	1	N/A
	New Mexico State University-Grants	\$312,622	0.742	1	N/A
Independent Community College					
	Central New Mexico Community College	\$60,478,085	2.763	3	N/A
	New Mexico Junior College	\$37,109,413	3.573	5	5
	Santa Fe Community College	\$22,615,753	2.892	3.335	N/A
	San Juan College	\$14,959,428	3.561	4.5	4.5
	Southeastern New Mexico College	\$14,489,918	2.347	3	3
	Luna Community College	\$2,183,894	2.337	2.814	N/A
	Clovis Community College	\$1,799,943	1.983	2	N/A
	Mesalands Community College	\$344,685	1.796	3	N/A

Max Allow Revenue – A dollar amount based on the authorized and assessed operation mill rate, set by the institution or assessed by NMHED that finance the ongoing operations of local governments and schools. Source: NMHED

Residential – Residential properties in a tax district.

Non-Residential - Property used in the conduct specialized industries doing business in New Mexico, such as: railroad, telecommunications, pipeline, public utility, airline, electricity generating plants, mineral property and property held or used in connection with mineral property, and multi-county construction. Source: <https://www.tax.newmexico.gov/businesses/state-assessed-property-bureau-overview/>

Oil, Gas, Copper & Equipment – Assessed oil, gas and mining activities in a tax district.

State Sources

The state itself provides support for higher education in New Mexico through various mechanisms. While many states use a variety of tools to deliver public support to institutions and to a coordinating statewide agency for higher education, New Mexico is unusual in the number of mechanisms it uses to deliver support and the embedded incentives within those tools.

In this report, we are primarily focused on the Instruction and General (I&G) mechanism. The I&G, or “base” amount, is intended to provide predictable, formula-driven funding to institutions to provide for a minimum level of operational expenses.^{viii}

However, the state also provides dollars to institutions through additional mechanisms:

- Capital expenses and building renewal and repair: State funding dedicated to constructing and maintaining state-owned facilities on campuses.
- Individual Governor and legislator pools: State dollars delivered to higher education institutions by the Governor and each individual legislator at their discretion for capital projects.
- Deficiency and supplemental requests: State funding, delivered through NMHED, to mitigate emergency financial situations.
- Research and Public Service Projects (RPSPs): Program-level funding allocated to institutions through NMHED.

While many states provide support for base funding and capital, fewer states have a specific process in place for deficiency and supplemental requests. Some states also have set policies and procedures for program-level funding, however, none are exactly similar to the RPSP approach in use in New Mexico. Finally, in NCHEMS’ research, we could not find another state that provides pools of funding for the Governor and individual legislators to allocate for capital projects at their discretion.

Comparison to Other State Models

State Funding Models

Higher education funding models vary significantly from state to state. While there is a diversity in approaches, the three main strategies used by states include base-plus allocations, input-based formulas, and performance/outcome metrics. Most states incorporate a combination of these different types of funding strategies. Each model has advantages and disadvantages in achieving each state’s educational goals and objectives. Understanding these different strategies is important for policymakers seeking to enhance access, affordability, and educational outcomes.

Base or Base Plus Appropriations

Through a base or base plus approach, state higher education systems or institutions receive relatively predictable annual appropriations from the state. In each annual budget cycle, the legislature adjusts the appropriation incrementally up or down based on statewide economic or political conditions. The base appropriation strategy’s principal advantage is its stability and

predictability for systems and institutions. The disadvantage of base appropriations is that they generally do not account for demographic enrollment trends, program-specific costs, or support for specific student populations. Additionally, the base approach to appropriations may perpetuate historical funding inequities for certain institutions.^{ix} Such approaches are not generally linked to any empirical assessment of the funding requirements of institutions, nor was that the case when the funding levels in the initial year, from which all subsequent incremental changes derive, were determined. Base plus appropriations offer limited options for aligning investments with state goals, and, where such connections are possible, they are driven by political advocacy on behalf of institutions making a case for their own contributions to state priorities, rather than a broader statewide approach.

Input-formulas

The input-formula strategy considers variable costs associated with changes in enrollment and facilities. The advantage of using an input formula is that it has an empirical basis that makes it slightly less susceptible to political pressures. However, input formulas are often aspirational only, and seldom fully funded. According to the State Higher Education Executives Officers Association (SHEEO), many states are unable to fund institutions at the levels that result from input formulas. Instead, the formula results are used as guidelines.^x Input-driven formulas also can be limited in their ability to adjust to real-time shifts in conditions or state priorities. Instead, these formulas primarily focus on enrollment growth. While enrollment growth may be a state priority, exclusive focus on enrollment growth is limiting as the nation enters a period of decline in the traditionally college-aged population. Instead, exclusively enrollment-based formulas are certain to exacerbate unproductive competition among institutions for a dwindling number of prospective students. States must think in more nuanced ways to support and incentivize institutions to grow and adapt to this new reality.

The state of New Mexico employed an input-based formula in the 2000s but opted to implement a performance-based formula instead after a state task force determined New Mexico's input formula focused too much on factors associated with enrollment rather than on completions^{xi}.

Performance- or Outcomes-Based

Performance-based funding strategies focus on institutional and student outcomes. In recent years, many states have adopted performance funding models and associated metrics focused on state priorities. Some of the common metrics used by states include:

- Student Success
 - Degree and certificate completions
 - Time-to-degree
 - Progression
 - Transfer students
 - Dual enrollment
- Student Demographics
 - Equity metrics that consider socio-economic status or race/ethnicity
 - Low income
 - Adult learners
 - First-generation

- Veteran
- Workforce
 - Post-graduation income
 - Degree completions aligned with workforce needs

The advantage of using a performance-based formula is that it theoretically holds institutions accountable for contributing to state priorities like student completion and success. Additionally, it helps institutions communicate their accomplishments more effectively to state elected officials. At the same time, performance metrics are associated with numerous challenges. For example, many performance formulas are not associated with new funding and instead re-allocate existing funding. In these common cases, public institutions within a state are forced to compete for a finite and limited pool of funds. The uncertainty in year-to-year allocations often leads to frustration, especially in states where a large portion of the state funding formula is allocated through the performance formula. In addition, performance formulas often rely on parameters and metrics that favor flagship research institutions, which cater to a higher proportion of traditional-aged and higher-income students. New Mexico's current I&G state funding model addresses some of the major challenges associated with performance funding by allocating only a small percentage of new money to the performance formula, devoting most to the stable base appropriations component. In the sections that follow, we address the New Mexico Performance Based Funding Formula (NMPBFF) in further detail.

Performance Measures

Background

New Mexico currently allocates approximately five percent of the I&G funding formula appropriations to institutions through performance-driven criteria. When new funds are added to I&G each year, a portion of these dollars is added to the performance funding pool. Currently, the performance portion of the I&G funding formula is driven by the following criteria that are shared across both the two-year and four-year sectors:

- End-of-semester completed student credit hours^{xii}
- Total credentials awarded
- STEM, healthcare, and workforce-oriented credentials awarded
- Awards to “at-risk” students, which is currently measured as students eligible for a federal Pell Grant

In addition to these shared criteria, each of the sectors also have mission-specific criteria within the formula:

Two-Year Institutions	Four-Year Comprehensive Sector Institutions	Four-Year Research Sector Institutions (UNM, NMSU, NMT)
Credit hours produced through dual enrollment	- Momentum points for students earning 30 or more credit hours - Momentum points for students earning 60 or more credit hours - Credit hours produced through dual enrollment	Research expenditures based on out-of-state dollars

The performance funding formula also incorporates an “institutional performance” calculation for each metric. To compute this portion, NMHED compares each institution’s performance on the criteria listed above against that same institution’s performance in previous years. If the institution has improved its performance relative to the historical levels, the institution is eligible for all potential performance funding dollars. If the institution’s performance on the metrics is the same or has declined, the institution is not eligible for the relevant portion of the performance funding.

Comparison

NCHEMS compared New Mexico’s approach to performance funding across three dimensions: (1) the process of applying and assessing the performance metrics, (2) the share of appropriations awarded to institutions based on performance criteria, and (3) the performance criteria currently in use.

Process

NCHEMS evaluated New Mexico’s performance funding process compared to other states. We found that the state’s performance formula generally functions well, having evolved thoughtfully over time to meet the needs of both the institutions and the state. Key features include changes to recognize past funding inequities and the integration of an institutional performance component. We also identified a potential process improvement - updating the department’s student credit hour weighting strategy.

First, NMHED has made key improvements in the process of applying the performance funding model over the past several years. The first major improvement was the abandonment of reserving a percentage of the previous year’s base allocation to use in the performance formula. This policy action is important because using a funding model that includes the previous year’s base funding can entrench historical funding inequities for years. By moving away from relying on the prior year base, policymakers have an opportunity to address funding inequities and increase the incentive power of the performance portion of the model. Another major challenge with performance funding models is that when new money is not included, a zero-sum game is created, and an improvement in metric performance does not always guarantee additional funding for an institution if all other institutions improve together. By revising the formula process

to include only new state appropriations, the department enhanced the incentive mechanism associated with the performance formula.

A second improvement was the adoption of the Institutional Performance (IP) component to the model, which scores improvement based on the most recent year's performance compared to the prior three years. The score is then compared to other New Mexico campuses, and the institutions with the most improvement receive additional funding. A handful of states, such as Florida and Nevada, use institution-specific benchmarking in their funding formulas. The inclusion of the IP component helps give institutions an additional incentive to improve prior-year performance. However, the use of the IP component does come with some risks. Institutions often face environmental challenges that they cannot fully control, such as demographic shifts and economic changes that influence enrollment and completion rates. Even with a three-year average, an institution's circumstances may harm potential funding. NCHEMS acknowledges the value of an IP component but advises states to limit the proportion of funding depending on IP to ensure that institutions have an incentive to improve but are not punished for factors they cannot control.

Finally, NCHEMS applauds the use of cost tiers in the performance funding model. Not all states consider the difference in program and level costs in their higher education funding formulas. The inclusion of the tiers in the model recognizes that the costs of educating business and humanities students are different than the cost of educating health science or engineering students. It is important to note that during the review process, NMHED noted the weights used to calculate the tiers were formulated over 25 years ago and could benefit from an update. NCHEMS acknowledges that the New Mexico weights are dated but argues that since the weights only serve to set the relative costs of various disciplines the weights are not outdated and, in some disciplines, align with the weights other states are using. Nevertheless, some disciplines could be adjusted, especially in accounting for differences between four- and two-year institutions. At the request of the department, NMHED and NCHEMS collaborated to map New Mexico weights to more current weights used in other states. We found that the New Mexico discipline weights were not significantly different. Even still, if NMHED is to consider alternative options for weights, Nevada is a good place to start. Nevada's student credit hour weights are similar to New Mexico's but feature a two-year tier and provide higher weights to Career and Technical education. As part of this study, NCHEMS has provided NMHED with these mapped weight spreadsheets. We also use these more updated weights in the adequacy analyses to follow in this report.

Share of Appropriations

In most of the 33 states that use performance-based funding, between less than 1% and 30% of annual state funding is allocated through the performance formula. Only a handful of states allocate over 30%, including Kentucky, Oregon, Ohio, Tennessee, and Texas (limited to two-year institutions). New Mexico allocates a relatively small percentage (1%-5%) of the total appropriation based on performance criteria. This approach is based on New Mexico's particular practice of allocating only new funding to the performance formula, rather than reallocating the existing base. However, this does not mean that New Mexico's performance funding is less effective than other states that allocate a greater share of funding towards performance.

A common policy question for states implementing performance or outcomes-based funding is determining the dosage or portion of a state's higher education funding formula necessary to

incentivize institutions to meet state outcome goals. Extensive research spanning decades and involving multiple states does not provide insight into the ideal dosage. Some states have pursued strategies to increase the percentage of a formula allocated to outcomes, with the hypothesis that more outcomes-driven funding should lead to better results. However, this is often not observed due to inherent flaws in most performance funding models. A key flaw is that state legislatures rarely fund each institution based on its individual performance, nor do they fully reward performance increases. Instead, most states allocate a set amount, and state performance funding models distribute the amount among state institutions. In this zero-sum game situation, the amount of funding an institution receives depends not only on its performance but also on the performance of other institutions.

Another challenge with implementing an effective performance-based funding formula model is balancing incentives with the need for some level of stable funding to effectively plan and make investments that enhance the relevant student outcomes. When a large portion of funding depends on performance, long-term planning becomes more difficult. The unpredictability associated with performance funding models might explain why, over the past several years, more states have opted to adjust their models to create less volatility for institutions.^{xiii} This may be especially true in periods where state resources are limited.

Finally, research on performance-based funding suggests that the presence of a performance model and the associated dosages can lead to unintended consequences. For example, recent research indicates that states with a large portion of the model devoted to outcomes see increases in short-term certificates offered and awarded rather than bachelor's degrees at four-year institutions^{xiv}. In this case, institutions may be acting in a way that generates the most reliable income source, rather than meeting their four-year mission. Additional research on performance-based funding also indicates that institutions in states with a high dosage of performance funding had negative impacts on Historically Black Colleges and Universities (HBCUs) and four-year institutions serving a large proportion of students of color^{xv}.

Despite the challenges associated with performance funding, emerging research indicates some benefits. These include improved outcomes in certificate production and award completion at two-year institutions^{xvi}. While not empirically proven, it is also undeniable that the presence of a performance funding model and associated metrics helps improve visibility with the state legislature on the impressive work that higher education institutions do for the state.

In the past, NMHED allocated 3-5% of the state funding to the performance-based component of the formula. NCHEMS believes that the percentage effectively balances incentivizing institutions to improve upon set metrics with maintaining financial stability. A 2020 report provides possible evidence that this approach works, as NMHED noted a 28% increase in completions in FY18 since adopting the performance funding model in FY11^{xvii}. Until more evidence is available, increasing the dosage of performance funding may not yield any additional gains.

Performance Criteria

Overall, New Mexico uses performance funding metrics that align with NCHEMS' external understanding of the state's objectives for public higher education. These include student success, equity, workforce alignment, mission support, and completions. Since the implementation of the original performance metrics in FY11, the department convened a Higher Education Formula

Working Group to review the metrics and consider modifications and new options^{xviii}. A metric that was not previously considered in the 2021 working group records, but suggested to NCHEMS by this project's advisory group, is the desire to explore a post-graduation earnings metric.

The post-graduation earning metric stands out as one of the most interesting and innovative performance measures states have considered. Including this metric in a funding formula can enable institutions to clearly communicate their contribution to economic mobility and the return on investment that education can provide to students and the state. Earnings data also helps policymakers hold institutions accountable if they are not meeting expectations or failing to improve the economic opportunities of their students.

Implementing a post-graduation metric can be difficult due to accessing the necessary wage data and garnering buy-in from all stakeholders about the validity of the data. The labor market for graduates is national, so obtaining wage records for individuals who left the state can be difficult and expensive. So far, only well-resourced states, such as California and Florida, with robust data systems and data agreements, are able to track and include a post-graduation earning metric in their higher education funding formula. Another challenge is that post-graduation earning metrics can have unintended consequences. For example, if institutions focus solely on maximizing graduates' highest earnings, they may be less likely to support or develop needed programs like education and social work, which tend to have lower earning prospects but are also highly needed and valued within states' labor markets.

Although measuring post-graduation earnings poses challenges, NMHED can consider practical options if the state and institutions aim to incorporate the metric into the funding formula. Two practical solutions leverage federal data sources. The first option is to use the Postsecondary Employment Outcomes (PSEO) dataset as a resource. According to the U.S. Census Bureau, PSEO data provides earnings data for graduates by level, major, and institution. The detailed dataset is produced by matching transcript data with employment data. The PSEO data is a product of data-sharing agreements between institutions and the federal government^{xix}. The PSEO dataset provides a picture of graduate earnings not only in New Mexico, but across the country. Furthermore, the data provides an excellent level of detail with data at the program and major level. The disadvantage of using the data is that there is a lag between the budget cycle and the publishing of the PSEO data, and there are limitations to the availability of data for majors and programs with low enrollment totals. Currently, no state uses the PSEO data as a source for its post-graduate earnings. However, this could change soon as more institutions and states participate in the program. According to the PSEO resource website, NMHED is engaged with the Census, and that data is pending. The department's actions suggest that the PSEO data may be viable moving forward and could serve as the best potential option to develop a post-graduate earnings metric.

The second option is to use the College Scorecard dataset for programming and institution-level earnings data. The College Scorecard is run by the U.S. Department of Education and includes earnings data for New Mexico institutions for nearly a decade. The main advantage of using the Scorecard data is that the data already exists and requires little to no investment by HED or the state. The disadvantages of using the data include data limitations and the uncertain future of the U.S. Department of Education's data collection efforts. Two main data limitations of using the Scorecard are that the dataset only includes earnings information for students who participated in

federal financial aid programs, and the data are limited for smaller institutions. These data limitations are major reasons why most states have chosen not to use the data source to create an earnings metric. Despite its limitations, the College Scorecard can still provide some value to policymakers in a formula if the metric is given low weight within the funding approach and smaller institutions are excluded.

Finally, a third option is for NMHED to collaborate with all relevant state agencies that collect wage and employment data to develop an internal post-graduation earnings metric. The state's Unemployment Insurance (UI) record data is likely to be very relevant in this effort. Developing an internal post-graduate metric offers the benefit of accessing the most current wage data without the delays associated with external sources. The expedited feature enables a more accurate assessment of institutional performance. The disadvantage to developing an internal metric is its limitation to information only on graduates employed in the state of New Mexico, and the need for additional staff resources to manage, develop and report the metric.

Use of Cost Adjustments

In addition to setting amounts and criteria within state approaches for higher education funding, states with funding formulas also face challenges in adjusting for inflation when calculating institutional appropriations from one year to the next. Often, state funding formulas are run using data from previous years (for example, student completion data from the year before fund the current year). This lapse in time can compromise the purchasing power that institutions can derive from their state appropriations. To account for this lag, some states apply inflation adjustments.

There is no national review that covers whether and how states account for changes in costs due to larger economic trends within their funding models. For the purposes of comparison, NCHEMS worked with the State Higher Education Executive Officers Association (SHEEO) to survey its members to learn from their approaches. We found that responding states generally use one of three different price indices to calculate inflation adjustments:

1. CPI-U, or the Consumer Price Index for all Urban consumers. The CPI-U is set each month by the U.S. Bureau of Labor Statistics and measures the changes in cost for goods and services faced by consumers in urban areas.
2. HECA, or the Higher Education Cost Adjustment. HECA is set annually by SHEEO, and accounts for the fact that most of the costs faced by institutions are labor costs, not costs for goods and services.
3. HEPI, or the Higher Education Price Index. HEPI is set annually by Commonfund and is intended to measure a more accurate collection of goods and services that are purchased by higher education institutions, as well as changes in labor costs. This adjustment is the most generous to higher education in most years.

Many of the survey respondents indicated that they use one or more of the cost adjustments detailed above, depending on the purpose of the analysis and its audience. However, CPI-U is the most common cost adjustment used across a variety of areas, not just higher education. Many states indicated that they use CPI-U to create congruence across other areas of the state budget, since it is familiar to state-level budget and finance analysts, legislators, and other stakeholders.

Respondents in Illinois, Kansas, Louisiana, New Jersey, and South Dakota indicated that they use the CPI-U either exclusively or when data is being prepared for external audiences.

However, using indices explicitly developed for higher education is also attractive in some contexts. A much smaller number of states indicated that they use HECA for their internally-facing analyses. As the index that SHEEO relies on for its widely used annual State Higher Education Finance reports, HECA is well known within the higher education community. Only one state, Arkansas, indicated that it exclusively uses the third measure, HEPI. Some states also indicated that they do not adjust for inflation within their higher education funding process. Currently, New Mexico does not adjust its appropriations amounts for inflation.

If the state of New Mexico adopts the adequacy model to calculate base funding as described in this report, the funding amounts will be calculated two years in arrears. This is because the model relies on data from a variety of sources to which institutions report on different cadences, including IPEDS. IPEDS data is used most prominently in the calculation of foundational funding, which is benchmarked against peer institutions. Given this lapse between the data used to calculate key funding levels and larger economic influences on institutions' purchasing power, NCHEMS recommends that NMHED adjust the final output from the model for inflation as a final step before using the figures to inform funding recommendations. To maintain congruence with other areas within the state budget and to conform with the approach used in the majority of states informally surveyed, NCHEMS recommends that NMHED use the CPI-U to calculate these adjustments.

Shared Resources and Programming

Increasingly, states and systems of higher education have sought opportunities to support institutions in sharing services and in collaborating in academic program delivery. When institutions share services, they work together to provide functions that all of the institutions need. Most commonly, this includes functions such as payroll, accounting, legal, information technology, or human resources. Through this model, one designated institution, or alternatively, a central office, hosts the shared service and provides it to partnering institutions; the individual institutions share in the cost of providing that service rather than creating it individually on their campuses. Postsecondary systems and multi-campus institutions are the most common structures through which such administrative services are shared. New Mexico boasts one of the most promising multi-institutional partnerships—the CHESS initiative. Through CHESS, many of the state's community colleges have committed to implementing a jointly managed Education Resource Planning (ERP) system.

Some states and institutions are also increasingly interested in shared academic program delivery. Through this model, academic programs are established and awarded through one institution; however, the courses or programs are delivered to sites of any number of campuses within the state. Shared academic programming intends to support the availability of a wider number of programs throughout the state, while saving institutions the costs of setting up and maintaining new programs at each campus. In many cases, institutions share the tuition revenue from shared programs. Such a sharing of academic programming is currently more common among private institutions, such as through the Council for Independent Colleges. It also occurs in pockets throughout higher education, where faculty with a shared affinity—often working at their

own initiative—construct shared programs. These cases are promising, but without enterprise-wide endorsement and support, they often prove unsustainable once the involved faculty members move on.

While some institutions will enter into shared service and/or academic program delivery agreements organically, many need incentives and the support of state policy to collaborate productively. In some cases, the upfront costs of setting up shared service delivery can be prohibitive, thus opening an opportunity for states to support public institutions with one-time investments that can yield longer-term cost savings. In the case of shared academic programs, institutions can often use the support of external public agencies to convert competitive instincts into collaborative opportunities, sharing revenues and serving students more efficiently across the state. Indeed, in both shared services and in shared academic program delivery, states and institutions should do careful work to ensure that incentives are aligned to produce high-quality service and cost savings for all parties.

Where opportunities exist to better serve students and unlock efficiencies for public institutions within the same state, higher education agencies and policy leaders generally:

1. Ensure all participating institutions share revenues generated from shared academic programs.

For example, in Oklahoma, the student's home institution keeps the tuition revenue they collect for the student's enrolled coursework. However, the institution delivering the course material receives credit for producing those credit hours within the state's funding formula.

2. Supported one-time, start-up funding for new efforts that hold potential for longer-term cost savings.

Often, realigning the efforts of multiple campuses can require one-time costs, including setting up new services and contracts with relevant vendors and implementing the new services on each campus. If the shared service is successful, these costs should diminish over time, resulting in durable cost savings instead of new expenses. States such as Virginia and Oregon have created one-time, state-funded projects to design and implement shared services.

3. Leveraged scale in providing high-quality, low-cost shared services across institutions.

When more institutions participate, shared services can operate most efficiently and accrue the most benefits to each individual campus. The Collaborative for Higher Education Shared Services (CHESS) is a voluntary collaborative of a subset of New Mexico Community Colleges which could potentially be scaled and strengthened.

Within the current set of funding mechanisms available to state policy leaders in New Mexico, there are few clear incentives that support shared service or shared academic program opportunities. As such, the state currently relies heavily on each of the institutions to voluntarily identify, create, and implement any new efforts.

Should the state adopt a new approach for calculating I&G as described in this report, there are opportunities to align incentives for shared services and program delivery. We recommend several of these strategies in the Recommendations section of this report.

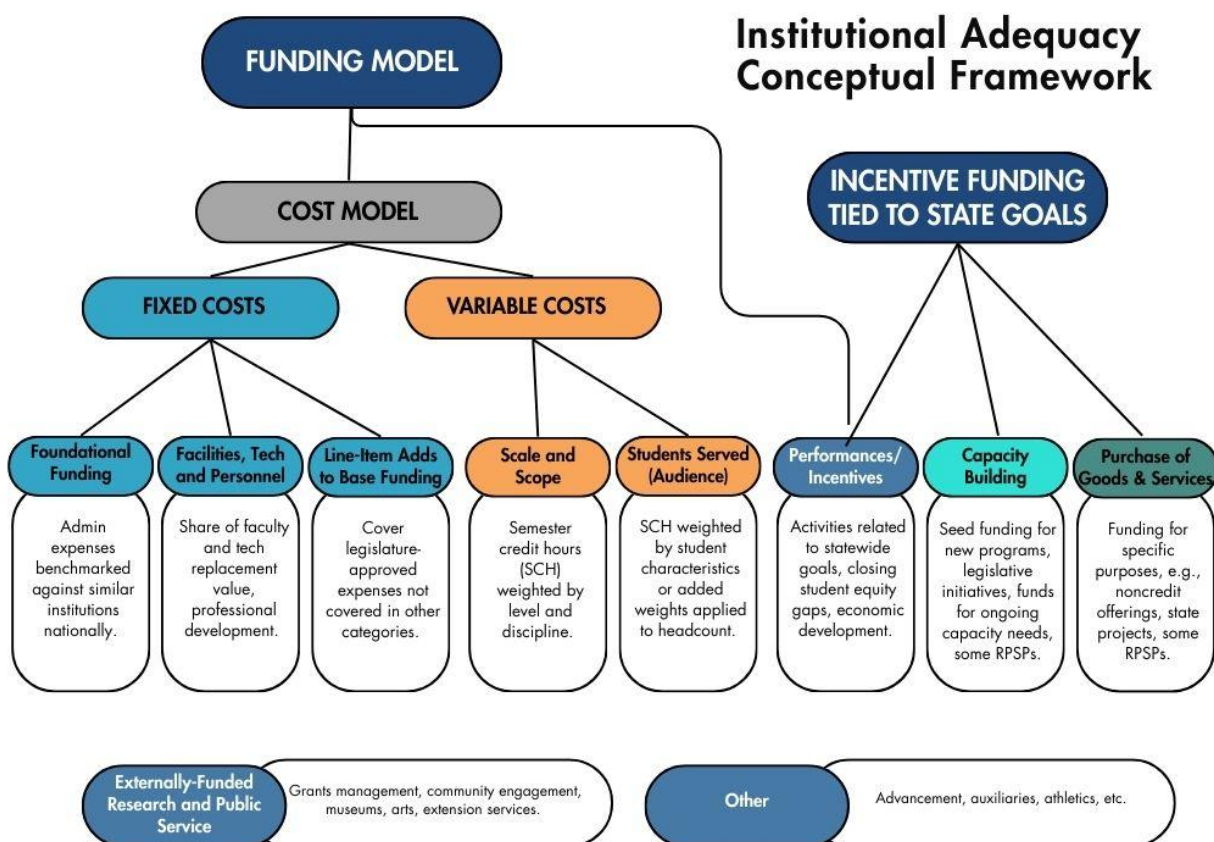
Findings

Adequacy Modeling

Historically, New Mexico's approach to funding higher education has used many different mechanisms to deliver funding, as illustrated in the introduction and in Figure 2. In this study, NCHEMS was asked to focus on the I&G, or base funding mechanism, and determine if these amounts are adequate and equitable.

NCHEMS completed this assessment using a conceptual framework that we developed for this purpose and refined to fit New Mexico's distinctive features and context. At a high level, this framework, which we refer to as an adequacy model, seeks to categorize and estimate the costs that institutions face, and then determines, through focused conversations with state-level decisionmakers, which revenue source(s) should be used to cover those costs. In addition to modeling the costs institutions face to serve students successfully, the model also includes areas where states can add funding to reward or incentivize performance, build capacity, and purchase services from the campuses. The full model is illustrated in Figure 9 and explained in detail in the sections to follow in this report.

Figure 9: Institutional Adequacy Conceptual Framework



The cost portion of the adequacy model consists of four components. The first two include Foundational Funding and Facilities and Technology and Personnel components. The third component, Line-Item Adds to Base Funding, reflects New Mexico’s practice of providing legislatively approved funding for athletics and other ongoing operations. The fourth and fifth components, highlighted in orange, are Scale and Scope and Students Served. These two metrics focus on an institution’s enrollment, program offerings, and the types of students the institution enrolls. Below, we explain each of the five components of the cost model, as well as a recommended way to calculate each metric. We also provide funding levels that the model would have generated if it were in use in FY2022 in New Mexico. Data from FY2022 was selected because it was the most recent year with complete data from the Integrated Postsecondary Education Data System (IPEDS) and NMHED.

Cost Model

Foundational Funding

Institutional staff and administrators execute the baseline functions that postsecondary institutions need to operate effectively. These individuals plan, organize, direct, and evaluate necessary administrative functions across the institution. Specifically, they execute the activities related to activities any organization—not just colleges and universities—must provide, such as human resources, procurement, accounting and finance, legal services, risk management, and so

on. Additionally, foundational funding supports the core elements associated with oversight of key student services such as admissions, registration, and financial aid. Some institutions require additional functions; for example, a research university must also operate an office to carry out the oversight and compliance requirements for the institution's research activities.

Recognizing this, the adequacy model begins with a foundational funding metric intended to cover baseline administrative expenses for each institution. These expenses vary from institution to institution, depending on their size, mission, and organizational structure. This variation prevents the setting of a field-supported standard amount of money that could serve as the minimum needed to successfully support a postsecondary institution. Instead, NCHEMS measures foundational funding by benchmarking the administrative expenses of each New Mexico institution against those of comparable institutions nationwide. For New Mexico, NCHEMS worked with NMHED and the institutions to identify sets of peer institutions in other states for this purpose. We use this method because it matches institutions based on key input criteria. Using median expenditures from each institution's respective peer group allows for variance in how different institutions serve different student populations, while correcting for any institutions that may have unusually high or unusually low administrative expenses.

To construct the foundational funding metric, NCHEMS, NMHED, and each institution collaboratively developed a peer set of institutions for each public college and university in New Mexico. NCHEMS then gathered institutional finance data for each peer institution and calculated a median academic and instructional support expenditure per FTE. The value was then multiplied against the respective institution for FTE enrollment in the corresponding year to calculate a foundational funding value, using the formula below:

$$\text{Formula: Median peer expenditures per FTE} \times \text{NM institution's FTE} = \text{Foundational funding}$$

The tables below illustrate the results of this analysis by each of the New Mexico institutions.

Table 2: Foundational funding levels for New Mexico's four-year institutions, FY2022

Institution Name	Foundational Funding
Four-year Institutions	
University of New Mexico-Main Campus	\$171,290,507.07
New Mexico State University-Main Campus	\$86,360,773.26
Eastern New Mexico University-Main Campus	\$16,870,311.69
Western New Mexico University	\$13,258,454.59
New Mexico Highlands University	\$9,976,531.43
New Mexico Institute of Mining and Technology	\$11,724,790.95
Northern New Mexico College	\$4,075,644.15

Table 3: Foundational funding levels for New Mexico’s two-year branch campuses, FY2022

Institution Name	Foundational Funding
Branch Campuses	
New Mexico State University-Dona Ana	\$18,229,869.80
Eastern New Mexico University-Roswell Campus	\$5,706,746.84
University of New Mexico-Gallup Campus	\$5,722,326.17
University of New Mexico-Valencia County Campus	\$4,464,774.78
University of New Mexico-Taos Campus	\$2,923,382.94
New Mexico State University-Alamogordo	\$2,799,543.92
University of New Mexico-Los Alamos Campus	\$2,088,213.69
Eastern New Mexico University Ruidoso	\$1,869,522.46
New Mexico State University-Grants	\$1,835,304.30

Table 4: Foundational funding levels for New Mexico’s two-year independent community colleges, FY2022

Institution Name	Foundational Funding
Independent Community Colleges	
Central New Mexico Community College	\$54,067,731.89
San Juan College	\$16,290,416.40
Santa Fe Community College	\$7,767,104.92
New Mexico Junior College	\$6,897,108.32
Clovis Community College	\$6,066,530.72
Southeast New Mexico College	\$3,543,932.82
Luna Community College	\$2,704,324.64
Mesalands Community College	\$1,857,425.42

Facilities, Technology, and Personnel

In addition to foundational funding, New Mexico’s public postsecondary institutions face costs related to the maintenance of their public assets. These assets include facilities and equipment and are a state obligation just as they are for other state-owned property. For higher education institutions, there are a couple of adjustments: first, institutions also own and operate auxiliary businesses such as housing and athletics. The costs of maintaining these facilities should be the responsibility of the business rather than the state. Therefore, the state’s obligation for maintaining its assets apply just to the facilities and equipment that are primarily used for state-defined “instruction and general” purposes. Maintaining these assets is an obligation the institutions incur regardless of enrollment levels. Additionally, as the owner of these campus buildings, the state should primarily fund their maintenance. For locally-owned assets, local governments play a fundamental role in maintenance.

This does not mean that state policy should not attend to ensuring that campus footprints align with student needs. In fact, state higher education agency leadership likely needs to play a key role in supporting institutional leaders in right-sizing physical plant assets to student needs – ensuring that there is adequate, updated, safe space for learning. Furthermore, these maintenance costs represent the operational costs of maintenance—what it takes to ensure that the facilities and equipment continue to hold their value as investments of the state. New

buildings and major improvements (renewal/renovation and replacement) are not normally considered operational costs nor are they funded under most states' direct appropriations, but are rather funded as part of states' capital budgets.

Second, in addition to the necessary funds to maintain buildings and equipment, each institution must sustain a relevant curriculum aligned with the educational and workforce needs of students and the state. Developing and updating this curriculum should be a central interest for the state, which should therefore play a role in covering these costs.

Facilities and Equipment

NMHED provided the I&G space data needed to calculate the facilities portion of the cost model. The department also estimated a per-square-foot construction cost for new campus buildings in New Mexico. FY2022's estimated new construction cost multiplier was \$800 per square foot. The data for campus equipment totals is pulled from IPEDS when available at the campus level. Branch campus equipment totals are aggregated at the main campus level. The replacement rate multiplier in the model is 2% and falls within the Association of Physical Plant Administrators (APPA) recommended capital renewal and deferred maintenance rate range of 1.5% to 3%.

To calculate the cost of maintaining existing facilities and equipment, NCHEMS employed the following formula:

Step 1: Institution's I&G space total x New construction multiplier (\$800) = Facilities replacement cost

Step 2: Facilities replacement cost + Institutional equipment total = Unadjusted facilities and equipment cost

Step 3: Unadjusted facilities and equipment cost x Replacement rate (2%) = Adjusted Facilities and Equipment total

NCHEMS and NMHED acknowledge that construction costs vary by region, building type, and project timeline. Without detailed data on new construction costs for each campus, the statewide average offers a rough estimate for replacement costs. Any additional information about this variance will help improve the accuracy of the adequacy model.

Finally, this metric within the formula is not intended to reduce deferred maintenance amounts that may have accumulated over time. It is, however, intended to stem the amount of money that continues to be added. In this way, the funding model proposed in this report draws a clear distinction between where capital construction, improvement, repair, or demolition decisions are made (as outlined in state higher education capital policies) and where the maintenance of existing assets is funded (within the higher education funding model). Institutions with urgent deferred maintenance needs may require one-time or exceptional support to meet costs that would not be accounted for within this model that may be supported through the state's capital policies, but not through their base funding.

Curriculum & Professional Development

We estimate curriculum and professional development using each campus's IPEDS salary and benefits data. To account for variation in staffing levels, a five-year inflation-adjusted average of

salary expenditures per campus is calculated and then multiplied by an estimated renewal rate of 2%. This rate is derived from the Society for Human Resource Management's recommendations for an appropriate amount to be set aside for professional development and is the standard being used as a proxy for the costs of renewing and refreshing the curriculum.

$$\text{Institution's inflation-adjusted five-year average total salary and wages} \times \text{Renewal rate (2\%)} = \text{Curriculum \& Professional Development total}$$

The tables below illustrate the results of this analysis by each of the New Mexico institutions. Using FY22 data, we generate facilities, technology, and personnel estimates at levels recommended by NCHEMS.

Table 5: Facilities, Technology, and Personnel levels for New Mexico's four-year institutions, FY2022^{xx}

Institution Name	Facilities & Equipment	Curriculum & Professional Development
Four-year Institutions		
University of New Mexico-Main Campus	\$93,559,988.52	\$27,424,552.68
New Mexico State University-Main Campus	\$45,224,415.12	\$4,226,443.80
Eastern New Mexico University-Main Campus	\$13,841,651.00	\$678,407.98
Western New Mexico University	\$9,145,585.14	\$455,223.63
New Mexico Highlands University	\$11,324,071.00	\$607,086.49
New Mexico Institute of Mining and Technology	\$17,677,780.48	\$974,051.09
Northern New Mexico College	\$7,152,424.18	\$210,763.56

Table 6: Facilities, Technology, and Personnel levels for New Mexico's two-year branch campuses, FY2022

Institution Name	Facilities & Equipment	Curriculum & Professional Development
Branch Campuses		
New Mexico State University-Dona Ana	\$7,612,768.00	\$502,641.26
Eastern New Mexico University-Roswell Campus	\$7,360,918.18	\$241,583.18
University of New Mexico-Gallup Campus	\$5,046,832.00	\$185,205.27
University of New Mexico-Valencia County Campus	\$3,179,872.00	\$158,275.09
University of New Mexico-Taos Campus	\$1,526,816.00	\$125,271.34
New Mexico State University-Alamogordo	\$3,225,328.00	\$126,279.48
University of New Mexico-Los Alamos Campus	\$1,225,136.00	\$57,655.28
Eastern New Mexico University Ruidoso	\$915,690.76	\$66,061.25
New Mexico State University-Grants	\$1,741,408.00	\$51,753.88

Table 7: Facilities, Technology, and Personnel levels for New Mexico’s two-year independent community colleges, FY2022

Institution Name	Facilities & Equipment	Curriculum & Professional Development
Independent Community Colleges		
Central New Mexico Community College	\$29,229,510.00	\$1,846,761.80
San Juan College	\$13,383,315.32	\$597,960.39
Santa Fe Community College	\$10,827,287.12	\$518,995.18
New Mexico Junior College	\$6,452,573.38	\$315,701.81
Clovis Community College	\$5,587,508.48	\$190,220.47
Southeast New Mexico College	\$2,487,232.00	\$122,435.96
Luna Community College	\$5,370,820.60	\$146,623.93
Mesalands Community College	\$1,538,300.88	\$72,085.26

Scale and Scope

Each institution in New Mexico incurs variable costs based on the programs that it offers and the number and characteristics of students it enrolls. For example, some institutions emphasize research and graduate education, while others focus more on teaching and undergraduate programs. The cost for the institution to offer research-focused graduate education is generally higher than that of undergraduate classes. For example, New Mexico Tech has a very specific STEM-focused mission and serves a relatively high share of graduate students. These two traits are associated with higher costs than other four-year institutions. Therefore, the cost component of the model must account for size and scope on an institution-by-institution basis. Accounting for the scale and scope of each institution better targets state resources where they are most needed, aligning with each institution’s respective mission.

The cost model addresses program and enrollment cost differences by weighing student credit hours by discipline and level. Weighing credit hours is a common practice in other states. It serves as a mechanism to responsibly support and maintain costly programs that meet state interests and are vital to local communities, such as nursing programs.

The scale and scope portion of the cost model is calculated by taking student credit hour data from NMHED and multiplying it by student credit hour weights based on discipline and level. For this study, NCHEMS selected Texas credit hour weights for the four-year institutions and Nevada weights for the two-year institutions. The Texas weights were selected for New Mexico’s four-year institutions because they are detailed, well-researched, recently updated, and viewed as a gold standard given the state’s history of studying costs. The Nevada weights were selected for the two-year institutions because they specifically address certain high-costs programs offered at two-year institutions, such as technical education. The Nevada weights were also the product of a detailed study using data from the National Community College Benchmarking Project, a national voluntary effort among community colleges to gather cost data. After the credit hours are weighted, the value is multiplied by a dollar amount based on the sector. Weights based on data from New Mexico were considered, but they were not as sensitive to differential costs as the Texas and Nevada weights. Adjusting for inflation, the FY2020 Texas multiplier, less institutional support, is \$230 for four-year institutions and \$190 for two-year institutions.

Step 1: Completed Student Credit Hour by CIP and level x Texas/Nevada Student Credit Hour Weight by CIP and level = Weighted student credit hours

Step 2: Sum weighted student credit hours by NM institution = Total weighted student credit hours

Step 3: Total weighted student credit hours by institution x Texas \$ by sector = Weighted student credit hour costs

The total reflected in this report represents completed students' credit hours. This means that if a student enrolls in a course but does not complete it, NMHED will not include those credit hours in the institution's cost calculation. Ultimately, this creates an embedded incentive for institutions to ensure that students complete the credits for which they are registered. While the NMHED may select attempted or earned student credit hours as a measure, NCHEMS uses completed credit hours in this study to underline the importance of supporting students through to completion.

Students Served

In addition to considering scale and scope, an institution's student demographics matter when considering instructional costs. Each student is unique, and some individuals require extra support to graduate and achieve their educational goals. Generally, students from economically disadvantaged and racially minoritized populations often struggle to persist and complete their degrees at the same rates as their more advantaged peers. The same can also be true for students graduating from rural high schools. Consequently, institutions that serve these students require additional resources to do so effectively. Importantly, this funding is not performance-based; it is intended to provide a base level of funding to institutions that serve all New Mexico students well. Applying student-level funding weights can help support student success and ensure that institutions are not disincentivized from enrolling students who may require more resources to serve.

In the model, headcount weights are applied to undergraduate students who are identified as Pell-eligible, African American, Hispanic, Native American, adult learners (25+), or from a rural high school. A weight of \$2,000 is added to the cost total for each group a student is associated with in the NMHED records. Importantly, in this study, the \$2,000 headcount weight is stackable. This means that if a campus enrolls a student who is Pell-eligible and an adult learner, then the institution would be assigned a headcount weight of \$4,000.

NCHEMS selected \$2,000 as an appropriate weight for this study using both state and federal sources. In FY2022, the average student support expenditure per FTE for all New Mexico public post-secondary institutions in the study was \$2,016, a total close to our \$2,000 estimate. Second, the federal TRiO program tracks the per-student cost associated with programs that support socio-economically disadvantaged and underrepresented populations in higher education. In FY2022, the Upward Bound program estimated cost was at around \$5,000 per student, the Veterans program at \$2,391 per student, and Talent Search at \$500 per student. Although these sources are not entirely similar to the full cost of educating students from disadvantaged groups in New Mexico, the state and federal expense data provide rough estimates of costs. NCHEMS recommends that a headcount cost weight of between \$1,000 to \$3,000 per student should be added to the model to account for student demographics. A \$2,000 weight serves as a good starting point to understand how demographics influence costs at certain institutions in the state.

Finally, headcount weights are assigned at the undergraduate level only. In the future, NMHED may decide whether graduate students should also receive a headcount weight.

To calculate the audience portion of the model, NMHED headcount data was used to identify the total number of Pell-eligible, African American, Hispanic, Native American, adult learners (25+), and students who graduated from rural high schools enrolled at each campus^{xxi}. Each total was then multiplied by the \$2,000 cost per student enrolled. The cost totals for each group were summarized.

Step 1: Headcount totals for Student Populations of Interest x \$ Headcount cost weight = Total \$ cost by student group

Step 2: Sum weighted Headcounts by NM Institution

Scale, Scope, and Audience

The model integrates the scale and scope metric with the student-served metric to create the cost model's Scale, Scope, and Audience component. We combine these components because they represent variable costs that depend on the programs offered and the number and characteristics of students enrolled.

Step 1: Weighted student credit hour costs + Weighted Headcount Costs by NM Institution = Scale, Scope and Students Served Total

The tables below illustrate the results of this analysis by each of the New Mexico institutions. Using FY22 data, we generate the scale, scope, and students served estimates at levels recommended by NCHEMS.

Table 8: Scale, Scope, and Students Served levels for New Mexico's four-year institutions, FY2022

Institution Name	Scale, Scope, & Students Served
Four-year Institutions	
University of New Mexico-Main Campus	\$287,248,451.13
New Mexico State University-Main Campus	\$184,033,824.03
Eastern New Mexico University-Main Campus	\$50,684,492.54
Western New Mexico University	\$30,813,649.60
New Mexico Highlands University	\$38,596,972.77
New Mexico Institute of Mining and Technology	\$26,370,726.75
Northern New Mexico College	\$9,305,219.92

Table 9: Scale, Scope, and Students Served levels for New Mexico’s branch campuses, FY2022

Institution Name	Scale, Scope, & Students Served
Branch Campuses	
New Mexico State University-Dona Ana	\$52,256,344.08
Eastern New Mexico University-Roswell Campus	\$15,080,242.33
University of New Mexico-Gallup Campus	\$16,426,787.34
University of New Mexico-Valencia County Campus	\$10,579,261.37
University of New Mexico-Taos Campus	\$6,175,408.53
New Mexico State University-Alamogordo	\$7,396,431.05
University of New Mexico-Los Alamos Campus	\$4,760,462.40
Eastern New Mexico University Ruidoso	\$3,326,520.32
New Mexico State University-Grants	\$4,517,326.35

Table 10: Scale, Scope, and Students Served levels for New Mexico’s independent community colleges, FY2022

Institution Name	Scale, Scope, & Students Served
Independent Community Colleges	
Central New Mexico Community College	\$141,046,205.93
San Juan College	\$47,778,903.56
Santa Fe Community College	\$22,767,451.63
New Mexico Junior College	\$15,719,557.11
Clovis Community College	\$16,783,578.68
Southeast New Mexico College	\$8,995,000.50
Luna Community College	\$6,546,143.46
Mesalands Community College	\$4,369,620.18

Cost Model Totals

The cost model total encompasses all four components described in the preceding sections and represents the estimated adequacy total for each institution to meet its estimated baseline costs (Tables 11-13). This total represents the funding required for an institution to cover its basic costs, taking into account its mission, programs offered, and students served. The cost model total is not a comprehensive total of all institutional costs. The cost calculation does not include important activities associated with capacity building, RPSPs, non-credit and dual credit instruction, all research and public services activities, athletics, advancement, or any auxiliaries. While other costs are critical parts of institutional budgets, the cost model focuses on the basic costs associated with campus functions and the state's assets.

Table 11: Cost Model totals for New Mexico’s four-year institutions, FY2022

Institution Name	Cost Model Total
Four-year Institutions	
University of New Mexico-Main Campus	\$579,523,499
New Mexico State University-Main Campus	\$319,845,456
Eastern New Mexico University-Main Campus	\$82,074,863
Western New Mexico University	\$53,672,913
New Mexico Highlands University	\$60,504,662
New Mexico Institute of Mining and Technology	\$56,747,349
Northern New Mexico College	\$20,744,052

Table 12: Cost Model totals for New Mexico's branch campuses, FY2022

Institution Name	Cost Model Total
Branch Campuses	
New Mexico State University-Dona Ana	\$78,601,623
Eastern New Mexico University-Roswell Campus	\$28,389,491
University of New Mexico-Gallup Campus	\$27,381,151
University of New Mexico-Valencia County Campus	\$18,382,183
University of New Mexico-Taos Campus	\$10,750,879
New Mexico State University-Alamogordo	\$13,547,582
University of New Mexico-Los Alamos Campus	\$8,131,467
Eastern New Mexico University Ruidoso	\$6,177,795
New Mexico State University-Grants	\$8,145,793

Table 13: Cost Model totals for New Mexico's independent community colleges, FY2022

Institution Name	Cost Model Total
Independent Community Colleges	
Central New Mexico Community College	\$226,190,210
San Juan College	\$78,050,596
Santa Fe Community College	\$41,880,839
New Mexico Junior College	\$29,384,941
Clovis Community College	\$28,627,838
Southeast New Mexico College	\$15,148,601
Luna Community College	\$14,767,913
Mesalands Community College	\$7,837,432

Cost-Sharing Targets

In this report, NCHEMS has presented one way of calculating a minimum amount of support for each public higher education institution in New Mexico. We do so through an approach that estimates institutional costs for fixed and variable expenses, and then adds additional funding for performance incentives, capacity building, and purchase of goods and services from the state.

This analysis has been largely agnostic, however, to the fact that public higher education can leverage multiple revenue sources to meet its costs- it has not answered the question of where this money should come from. At the outset of this report, we outlined three main revenue sources: funds from the state, funds from students through tuition, and funds from local communities (for branch campuses and the independent community colleges). As a next step in the analysis, we apply the principle of cost-sharing to our findings and recommend a share of these costs for each of these revenue sources to cover. These cost-sharing targets are intended to help stakeholders better understand the role that state, local, and student resources play in meeting the full costs of higher education, and to make intentional decisions about that balance. To inform our recommended cost-sharing targets, we draw from other states and from historical trends in cost-sharing in New Mexico.

Other State Cost-Sharing Targets

Several states have established cost-sharing targets for public higher education. These targets are generally used to better understand state and local spending effort relative to what students are expected to pay through tuition. In this way, the targets can serve as an important affordability-related goal in the process of tuition-setting and determining appropriation amounts.

Several state cost-sharing targets are included below:

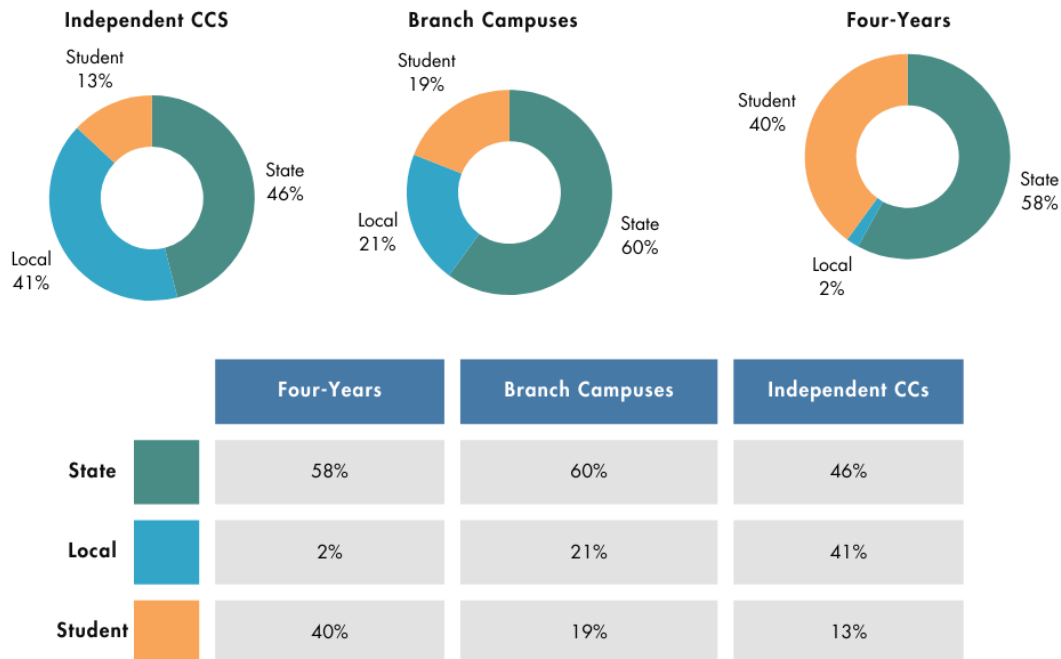
1. **Minnesota:** State seeks to provide 2/3 of total education revenue, including state student financial aid.
2. **Tennessee:** Disaggregates cost-sharing targets by sector:
 - a. Public Four-Year: 55% state, 45% student.
 - b. Community Colleges: 66% state, 33% student.
 - c. Colleges of Applied Technology: 80% state, 20% student.
3. **Virginia:** 66% state, 33% student target.
4. **Wyoming:** Student share should fall between 23-38% of system-wide unrestricted revenue.

Current Practice in New Mexico

Currently, the state of New Mexico does not have an intentional policy built around cost-sharing. Without a policy in place, the average share covered by the state ranges from 46% in independent community colleges to 59% for four-year institutions. The student share ranges anywhere from 13% in the independent community colleges to 40% in the four-year sector. These values are detailed in the figure below. Campus-by-campus cost-sharing percentages are listed in Appendix 4.

Figure 10: Cost Sharing Calculations

Cost Sharing IPEDS and HED



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NCHEMS checked these current cost-sharing targets to inform an actionable recommendation around where the state may set an initial set of targets if the model described in this report is implemented. For example, it would be unrealistic to expect the state or students to increase their contributions all at once drastically. NCHEMS recommends that the legislature and NMHED work together on a regular cadence to set and reset these targets and ensure they are acting to preserve affordability for students while providing sufficient support for institutions to meet articulated objectives from the state.

Cost-Sharing Targets Used in This Study

The cost-share levels are arguably the most consequential policy choice within the adequacy framework as presented. While the estimation strategy will produce an empirically derived adequacy target for each of the institutions in a state, how the state and other partners—students most importantly—divide the responsibility for paying those costs will, in most cases, be a target that the state legislature and governor’s office will need to establish. Given the wide variation in the institutions’ respective ability to raise revenue from non-state sources (especially tuition and gifts), the cost-share levels should also vary according to that ability.

To advance a dialogue about potential cost-share levels, NCHEMS has provided some pertinent analytical results. Based on comparisons to policies in other states and built on an understanding of how cost-sharing currently plays out within the state of New Mexico, NCHEMS has developed a recommended set of cost-sharing targets by sector.

The cost model described in this report is based on two key cost drivers: those that are relatively fixed, and those that vary based on institutional and student characteristics. The fixed cost component is comprised primarily of the barest expenses that an institution would need to open its doors and to maintain its state-owned assets. The state has currently articulated its intent for all institutions currently coordinated by NMHED to exist and serve their communities; therefore, NCHEMS recommends that the state cover 100% of those costs. The variable costs associated with the institution's mission and student enrollment are proposed to be covered by a combination of state and tuition resources, as well as, where applicable, local funding.

Four-Year Institutions

The four-year institutions within the state can generate revenue for the expenses described in this report from state appropriations and from students. The table below describes cost-sharing targets recommended by NCHEMS.

Table 14: Recommended Cost-Sharing Targets for Four-Year Institutions in FY 2022

Institution	Fixed Costs	Variable Costs	
	State Share	State Share	Student/Institutional Share
University of New Mexico- Main Campus	100%	60%	40%
New Mexico State University- Main Campus	100%	60%	40%
Eastern New Mexico University- Main Campus	100%	60%	40%
Western New Mexico University	100%	60%	40%
New Mexico Highlands University	100%	60%	40%
New Mexico Institute of Mining and Technology	100%	60%	40%
Northern New Mexico College	100%	60%	40%

Branch Campuses

The branch campuses can generate revenue for the expenses described in this report from state appropriations, students, and from local sources. As such, NCHEMS has recommended cost-sharing targets from each of these sources.

Table 15: Recommended Cost-Sharing Targets for Branch Campuses in FY2022

Institution	Fixed Costs	Variable Costs		
	State Share	State Share	Student/ Institutional Share	Local Share
New Mexico State University-Doña Ana	100%	50%	25%	25%
Eastern New Mexico University-Roswell	100%	50%	25%	25%
Eastern New Mexico University-Ruidoso	100%	50%	25%	25%
University of New Mexico-Gallup	100%	50%	25%	25%
University of New Mexico-Valencia County	100%	50%	25%	25%
University of New Mexico-Taos	100%	50%	25%	25%
University of New Mexico- Los Alamos	100%	50%	25%	25%
New Mexico State University-Alamogordo	100%	50%	25%	25%
New Mexico State University-Grants	100%	50%	25%	25%

Independent Community Colleges

The independent community colleges can generate revenue for the expenses described in this report from state appropriations, students, and from local sources. However, their local support outpaces that generated by the branch campuses, which is reflected in the recommended levels described below.

Table 16: Recommended Cost-Sharing Targets for the Independent Community Colleges in FY2022

Institution	Fixed Costs	Variable Costs		
	State Share	State Share	Tuition Share	Local Share
Central New Mexico Community College	100%	50%	25%	25%
San Juan College	100%	50%	25%	25%
Santa Fe Community College	100%	50%	25%	25%
New Mexico Junior College	100%	50%	25%	25%
Clovis Community College	100%	50%	25%	25%
Southeast New Mexico College	100%	50%	25%	25%
Luna Community College	100%	50%	25%	25%
Mesalands Community College	100%	50%	25%	25%

Adequacy Model Results for FY2022

In this final section on the adequacy model, we present the resulting state appropriation, tuition, and local funding amounts that would have been required to fully fund the model in FY2022. We compare these amounts to the revenue generated through each of these sources in FY2022 to enhance our understanding of the policy actions required to increase the strategic focus of state higher education funding in New Mexico. At the time that this report was prepared, FY2022 was the most recent year for which data from all relevant sources were available.

Cost Model Results

The table below illustrates the cost model totals drawn from tables 2-10 in this report. To these amounts, we apply the cost-sharing targets described in tables 14-16 in the preceding section. The result is the calculated dollar amount required from each source to fully fund the adequacy model described in this report.

Table 17: Adequacy Model Results for Four-Year Institutions for FY2022

Institution	Fixed Costs		Variable Costs			
	State Share	Calculated Amount	State Cost Share	Calculated State Funding Amount	Tuition Cost Share	Calculated Tuition Funding Amount
University of New Mexico-Main Campus	100%	\$292,275,048	60%	\$172,349,071	40%	\$114,899,380
New Mexico State University-Main Campus	100%	\$135,811,632	60%	\$110,420,294	40%	\$73,613,530
Eastern New Mexico University-Main Campus	100%	\$31,390,371	60%	\$30,410,696	40%	\$20,273,797
Western New Mexico University	100%	\$22,859,263	60%	\$18,488,190	40%	\$12,325,460
New Mexico Highlands University	100%	\$21,907,689	60%	\$23,158,184	40%	\$15,438,789
New Mexico Institute of Mining and Technology	100%	\$30,376,623	60%	\$15,822,436	40%	\$10,548,291
Northern New Mexico College	100%	\$11,438,832	60%	\$5,583,132	40%	\$3,722,088

Table 18: Adequacy Model Results for Branch Campuses for FY2022

Institution	Fixed Costs		Variable Costs			
	State Share	Calculated Amount	State Share	Calculated Amount	Local (25%)/Institution Share (25%)	Calculated Amount
New Mexico State University-Dona Ana	100%	\$26,345,279	50%	\$26,128,172	25%	\$13,064,086
Eastern New Mexico University-	100%	\$13,309,248	50%	\$7,540,121	25%	\$3,770,061

Roswell Campus						
University of New Mexico-Gallup Campus	100%	\$10,954,363	50%	\$8,213,394	25%	\$4,106,697
University of New Mexico-Valencia County Campus	100%	\$7,802,922	50%	\$5,289,631	25%	\$2,644,815
University of New Mexico-Taos Campus	100%	\$4,575,470	50%	\$3,087,704	25%	\$1,543,852
New Mexico State University-Alamogordo	100%	\$6,151,151	50%	\$3,698,216	25%	\$1,849,108
University of New Mexico-Los Alamos Campus	100%	\$3,371,005	50%	\$2,380,231	25%	\$1,190,116
Eastern New Mexico University Ruidoso	100%	\$2,851,274	50%	\$1,663,260	25%	\$831,630
New Mexico State University-Grants	100%	\$3,628,466	50%	\$2,258,663	25%	\$1,129,332

Table 19: Adequacy Model Results for Independent Community Colleges for FY2022

Institution	Fixed Costs		Variable Costs			
	State Share	Calculated Amount	State Share	Calculated Amount	Local (25%)/Institution Share (25%)	Calculated Amount
Central New Mexico Community College	100%	\$85,144,004	60%	\$70,523,103	25%	\$35,261,551
San Juan College	100%	\$30,271,692	60%	\$23,889,452	25%	\$11,944,726
Santa Fe Community College	100%	\$19,113,387	60%	\$11,383,726	25%	\$5,691,863

New Mexico Junior College	100%	\$13,665,384	60%	\$7,859,779	25%	\$3,929,889
Clovis Community College	100%	\$11,844,260	60%	\$8,391,789	25%	\$4,195,895
Southeast New Mexico College	100%	\$6,153,601	60%	\$4,497,500	25%	\$2,248,750
Luna Community College	100%	\$8,221,769	60%	\$3,273,072	25%	\$1,636,536
Mesalands Community College	100%	\$3,467,812	60%	\$2,184,810	25%	\$1,092,405

Performance Model Results

Earlier in this report, NCHEMS provided background on NMHED's current approach to performance funding and compared this approach to other states. Performance funding is still a key part of the adequacy model as it provides necessary incentives for the institutions to work towards state higher education goals, such as credential completion and enrollment, success for key student populations, and workforce-aligned academic programs.

In this study, we calculated a performance funding amount using a method similar to the one currently used in the state and described earlier in this report. However, instead of using the base from the previous year, we used the adequacy totals calculated using the NCHEMS model. New Mexico is one of the many states across the country that incorporates an outcomes or performance-based funding component in its higher education funding formula. The formula articulates the state's priorities of emphasizing completions, momentum, and workforce development. NCHEMS attempted to consider running the model with additional performance metrics. However, due to data limitations, the addition of other metrics presented challenges. Building from the current performance formula, we calculated performance funding totals based on a conservative estimation of 1% of new state appropriations allocated to the model.

A key difference in our calculation is that we used the FY2022 outcomes rather than the most recently available outcomes data. The reason for this change is that we wanted to prioritize compatibility with all other FY2022 data sources. We also calculate the base funding using completed credit hours, not hours attempted or enrolled, which weaves additional performance incentives throughout the model studied in this report.

The results of these performance calculations are presented in the tables to follow for each of the sectors.

Table 20: Performance Funding Amounts for Four-Year Institutions in FY2022

Institution	Performance (Based on FY22 Outcomes)
University of New Mexico - Main Campus	\$6,017,461
New Mexico State University - Main Campus	\$3,989,771
Eastern New Mexico University - Main Campus	\$1,204,674
Western New Mexico University	\$648,067
New Mexico Highlands University	\$770,125
New Mexico Institute of Mining and Technology	\$984,227
Northern New Mexico College	\$249,288

Table 21: Performance Funding Amounts for Branch Campuses in FY2022

Institution	Performance (Based on FY22 Outcomes)
New Mexico State University - Doña Ana Campus	\$545,405
Eastern New Mexico University - Roswell Campus	\$166,880
University of New Mexico - Gallup Campus	\$124,865
University of New Mexico - Valencia Campus	\$96,701
University of New Mexico - Taos Campus	\$66,096
New Mexico State University – Alamogordo Campus	\$64,887
University of New Mexico - Los Alamos Campus	\$39,820
Eastern New Mexico University – Ruidoso Campus	\$34,011
New Mexico State University – Grants Campus	\$37,441

Table 22: Performance Funding Amounts for Independent Community Colleges in FY2022

Institution	Performance (Based on FY22 Outcomes)
Central New Mexico Community College	\$1,828,262
San Juan College	\$494,587
Santa Fe Community College	\$218,045
New Mexico Junior College	\$140,279
Clovis Community College	\$208,608
Southeast New Mexico College	\$84,951
Luna Community College	\$56,687
Mesalands Community College	\$73,953

Comparison to FY2022 Funding Practices

Next, we assess the results from the adequacy model relative to the funding that the institutions received from state appropriations, tuition, and local funding (where applicable) in FY2022. This step is intended to serve as a check between the model as it is currently constructed and the funding realities present in FY2022 in New Mexico. To be clear, it should not be expected that these funding levels will align; the funding model currently in place in the state bears minimal similarity to the one outlined in this report, and therefore would not be expected to yield similar

results. Additionally, the model explored in this report generates output based on NCHEMS' recommended specifications. While these have been reviewed with NMHED and a technical committee (membership listed at the end of this report), there is no consensus that these specifications are the ones New Mexico would select to drive the model. As part of this project, NCHEMS has delivered a fully customizable model to NMHED.

In this study, therefore, we intentionally do not compare the dollar amounts resulting from the model with the dollar amounts appropriated in FY22. Instead, we present comparative results to inform the general direction of next steps that the state can consider in its path towards strategically and adequately funding all of its public higher education assets. This analysis is intended to help the legislature develop strategic next steps that take a global view of the state's higher education assets.

Overall, a comparison to FY2022 funding levels from the state, tuition, and local funding (where applicable) indicates that the majority of the institutions did not receive sufficient state or tuition support to cover their minimum costs according to the methodology used in this study. Some institutions also struggle with generating enough local revenue (where applicable) to meet the cost-sharing targets. The only institutions that reached adequate funding levels did so through robust local funding sources that generated revenue exceeding the cost-sharing target described in this report.

Learning that nearly all of the institutions cope with underfunding makes it difficult to pinpoint where underfunding is most acute, and where underinvestment from the state has the most significant impacts on institutional operations and on students. To help illustrate where gaps in adequate funding are largest, NCHEMS looked at each funding gap relative to the institution's enrollment size and the size of the gaps present in other New Mexico institutions within the same sector. Using this data, we created a spectrum for each sector that illustrates the relative distance from adequacy for each institution.

Figure 11: Gap in Adequate State Funding per FTE student, Four-Year Institutions, FY2022

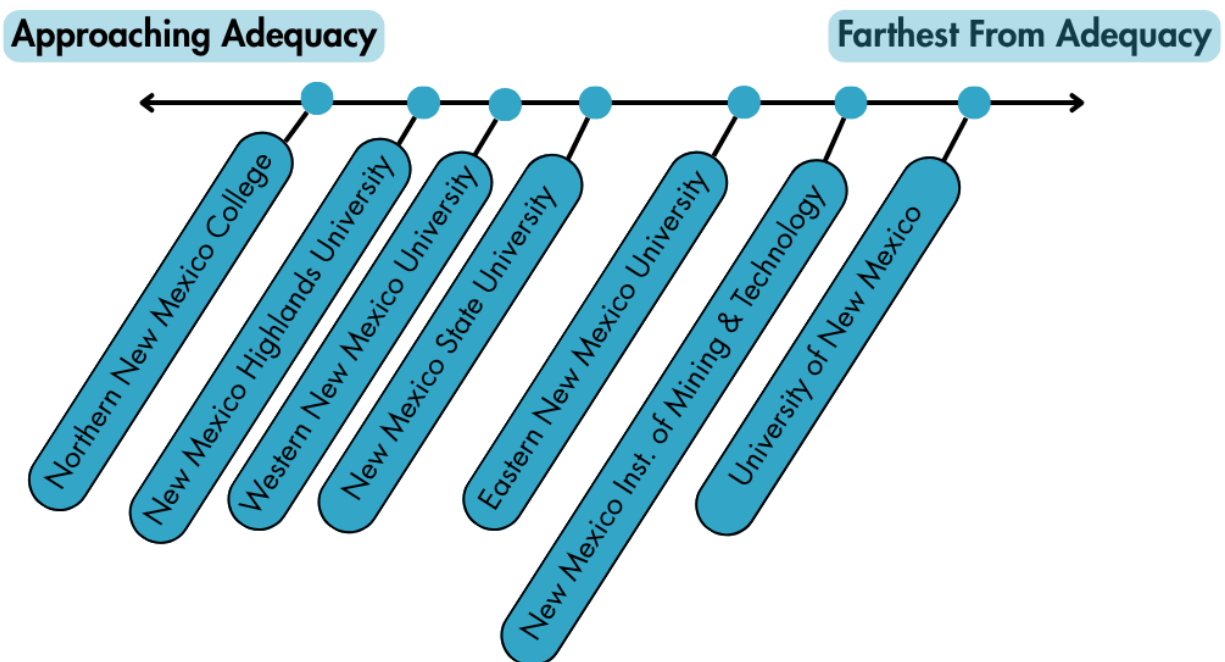


Figure 12: Gap in Adequate State Funding per FTE student, Branch Campuses, FY2022

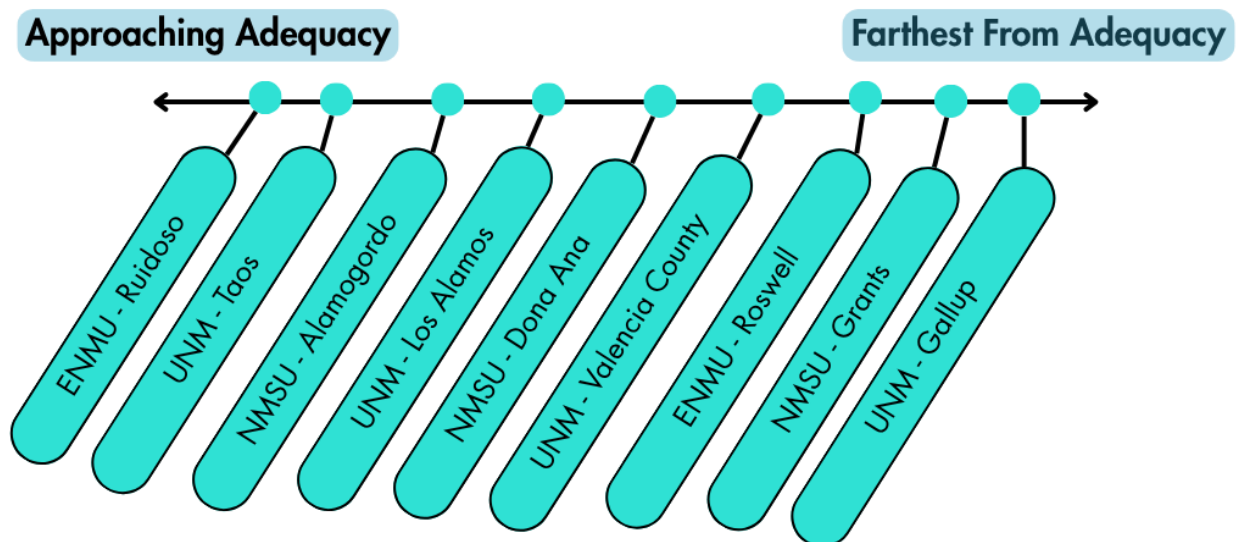
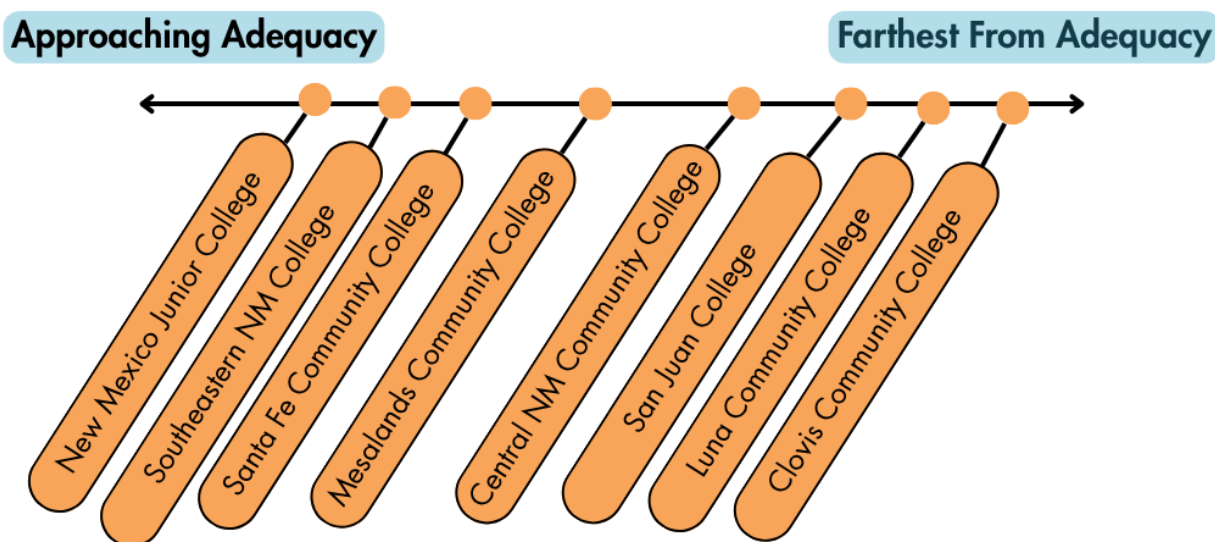


Figure 13: Gap in Adequate State Funding per FTE student, Independent Community Colleges, FY2022



Each of the figures above illustrates the relative gap in how much funding the adequacy model described in this report calculates for each institution compared to how much funding each institution received in FY2022, relative to its enrollment size. These figures do not, however, explain the drivers of the funding gaps. In earlier sections of this report, we explained that the concept of adequacy is composed of several aggregated, estimated institutional costs: the costs of the institution’s basic administration, facility maintenance, curriculum development and maintenance, student support, and other factors. Within the analysis, we are able to elevate which of these factors in particular contribute to underfunding for each institution relative to what the adequacy model would calculate. In sum, there are two main drivers of underfunding from the state using the adequacy model described in this report: (1) underfunding of base expenses for operation, and (2) underfunding of costs associated with meeting each institution’s specific mission.

In the table below, we calculate the share of the total amount of adequate funding calculated in this report by the funding model component. This is intended to illustrate what portions of the adequacy model have the most impact on the overall results. According to the model, the majority of institutional costs are generated by base expenses and through the scale, scope, and audience components.

Table 23: Share of Funding in Proposed Adequacy Model by Model Component and by Institution, FY2022

Institution	Base Funding	Facilities & Equipment	Curriculum & Professional Development	Scale, Scope, and Audience
Four-Year Institutions				
University of New Mexico	30%	16%	5%	50%
New Mexico State University	27%	14%	1%	58%
Eastern New Mexico University	21%	17%	1%	62%
Western New Mexico University	25%	17%	1%	57%
New Mexico Highlands University	16%	19%	1%	64%
New Mexico Institute of Mining and Technology	21%	31%	2%	46%
Northern New Mexico College	20%	34%	1%	45%
Branch Campuses				
New Mexico State University-Dona Ana	23%	10%	1%	66%
Eastern New Mexico University-Roswell Campus	20%	26%	1%	53%
University of New Mexico-Gallup Campus	21%	18%	1%	60%
University of New Mexico-Valencia County Campus	24%	17%	1%	58%
University of New Mexico-Taos Campus	27%	14%	1%	57%
New Mexico State University-Alamogordo	21%	24%	1%	55%
University of New Mexico-Los Alamos Campus	26%	15%	1%	59%

Eastern New Mexico University Ruidoso	30%	15%	1%	54%
New Mexico State University-Grants	23%	21%	1%	55%
Independent Community Colleges				
Central New Mexico Community College	24%	13%	1%	62%
San Juan College	21%	17%	1%	61%
Santa Fe Community College	19%	26%	1%	54%
New Mexico Junior College	23%	22%	1%	53%
Clovis Community College	21%	20%	1%	59%
Southeast New Mexico College	23%	16%	1%	59%
Luna Community College	18%	36%	1%	44%
Mesalands Community College	24%	20%	1%	56%

The table above also illustrates the areas where the largest incentives lie for institutions to increase their state funding. For institutions, the largest driver of dollars within the adequacy model is providing relevant programs that attract student enrollment. Institutions stand to gain the largest increases in state support by enrolling students and retaining them through to credential completion. While the model includes amounts that support campus administration and facilities, the application of peer medians for base costs means that this model does not create an incentive for institutions to increase spending in these areas to secure additional state support. Indeed, the state would only cover a portion of these new costs should institutions choose to take them on; the institutions would need to raise revenue from other sources to cover the rest. Enrolling and completing more students, however, poses not only a state funding incentive but also a tuition revenue incentive.

Within the adequacy model, NCHEMS also calculated how adequate tuition revenue is to meet the costs calculated in this study and to meet the recommended cost-sharing targets. It is important to recognize that our tuition adequacy calculations are based on a portion of variable costs in the model (40% for four-year and 25% for two-year institutions), and not the overall adequacy which includes both fixed and variable costs with different cost-share portions. Recall that while the costs are calculated based on estimates of institutional need, the reality is that those costs are met, in part, through state support and through tuition revenue. When NCHEMS compared the tuition revenue generated by the institutions relative to tuition revenue that would have been

required to meet the recommended variable cost-sharing targets for FY2022, tuition revenue was also found to be close to adequate for four-year institutions and less than adequate for most branch campuses and community colleges (see figures below). This reality stems from two different, overlapping challenges that are facing the institutions. First, many institutions in the state would be able to absorb additional student enrollment. Second, as explored earlier in this report, New Mexico has some of the lowest tuition and fee rates in the nation, and analysis relative to peer institutions reveals that its institutions generate far less in tuition revenue. The results also highlight that most branch campuses and community colleges face a particularly difficult tuition situation. Their low pricing fails both to generate sufficient net tuition revenue and to draw the enrollment increases necessary to offset this financial gap. Consequently, these institutions remain constrained in their ability to meet funding needs without additional state and local support.

Figure 14: Gap in Adequate Tuition Revenue per FTE student, Four-Year Institutions, FY2022

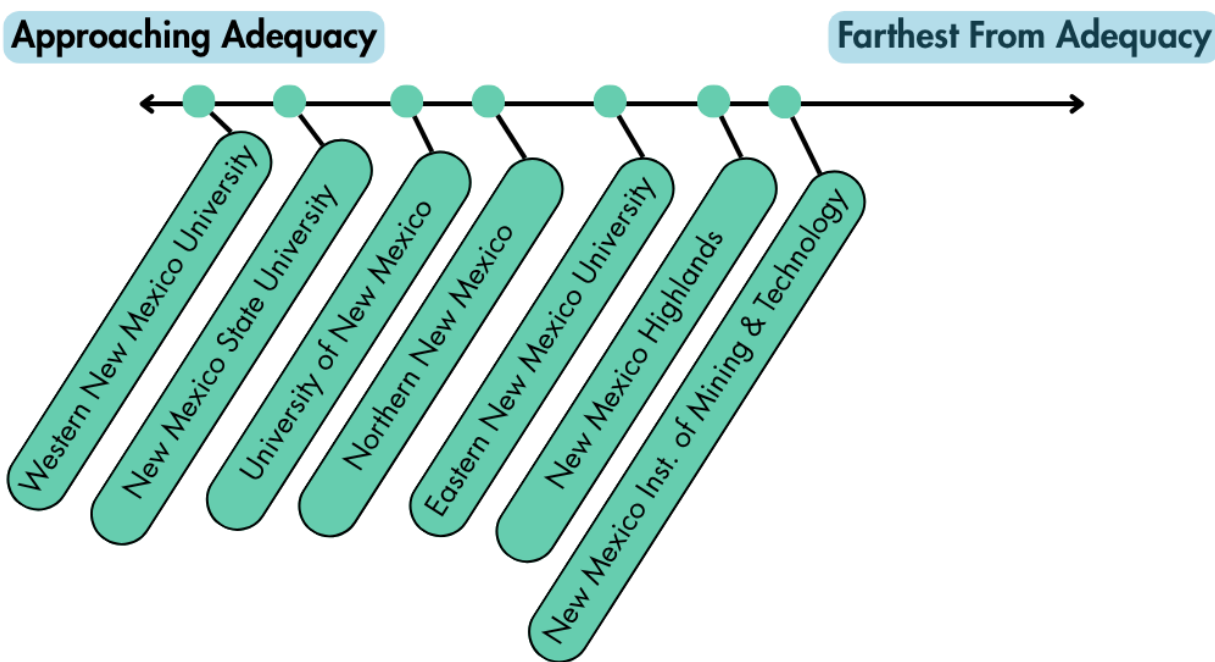


Figure 15: Gap in Adequate Tuition Revenue per FTE student, Branch Campuses, FY2022

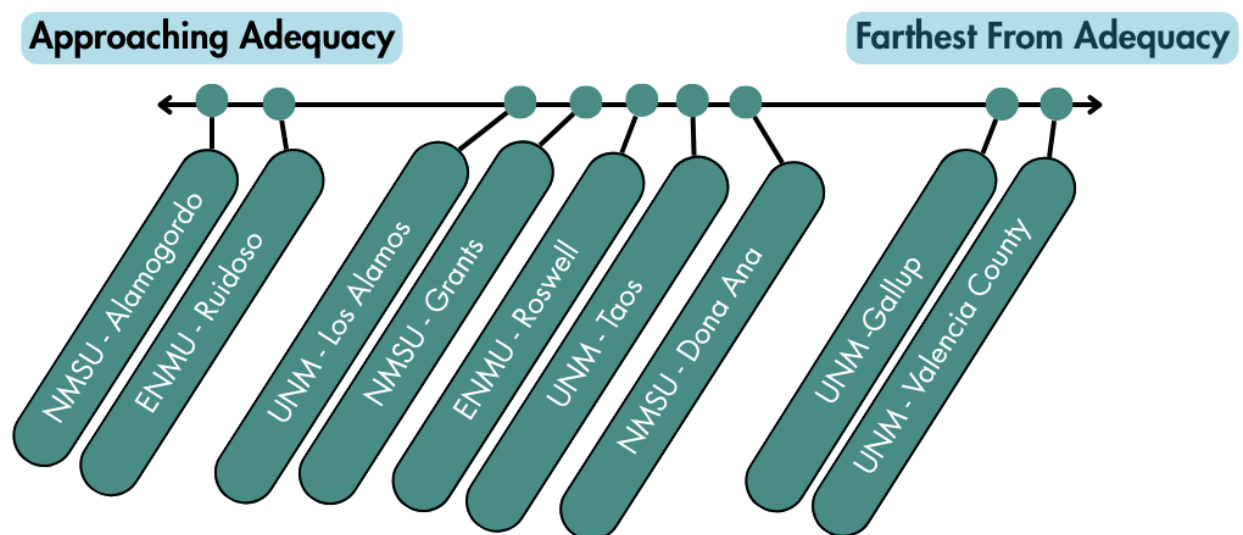
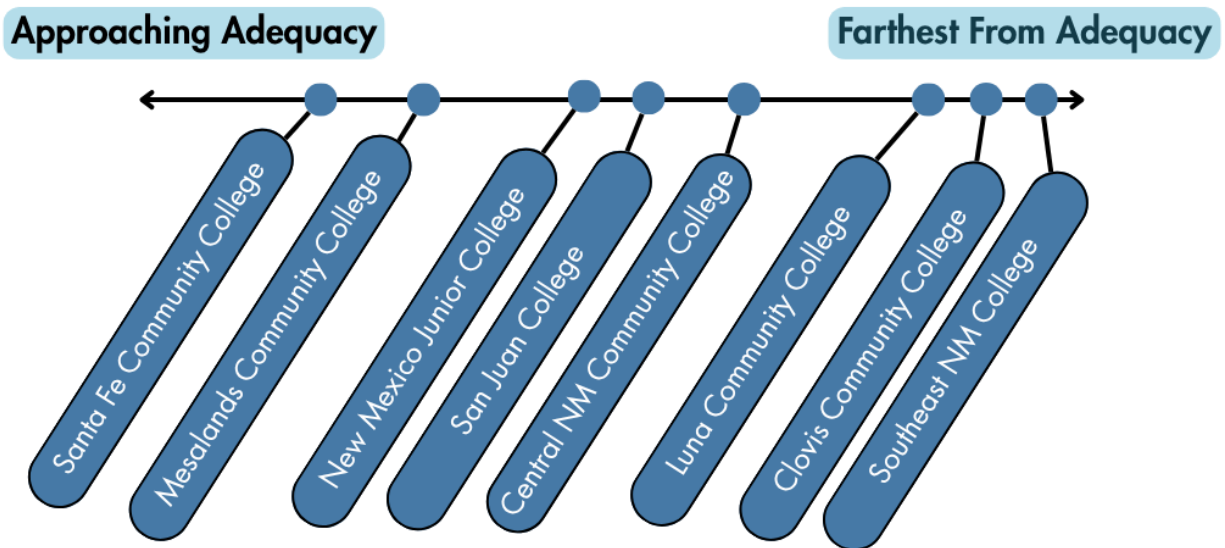


Figure 16: Gap in Adequate Tuition Revenue per FTE student, Independent Community Colleges, FY2022



Taken together, a comparison of actual FY2022 funding to the adequate funding proposed in this model indicates that the state does not have a habit of funding postsecondary education in the same ways or with the same amount of money that the adequacy model used in this study would suggest. The states' institutions also have very low published tuition rates, which is impacting the

tuition revenue they generate. As previously stated, the intent of this report is to inform the direction of future funding decisions within the state of New Mexico. Given the information compiled throughout this report, NCHEMS has developed several recommended actions for the consideration of the legislature, NMHED, and the institutions. Indeed, it is likely that only through collaborative actions can public postsecondary education funding become more transparent, strategic, and supportive of the state's workforce development strategy.

Recommendations

In this report, NCHEMS took a third-party perspective to examine higher education funding in New Mexico, with a specific focus on determining if the current funding model in the state was providing adequate financing for each of the state's public higher education institutions. Adequacy was defined to mean the ability of the institution to maintain the value of its assets, offer its approved array of programs at high levels of quality, and to provide the support services necessary to ensure success of the students it enrolls. NCHEMS studied the current funding practices in place, and, with data from NMHED, calculated adequate funding amounts using a model that has been used in other states and that accounts for the variety of costs institutions face to provide high-quality services to those they serve.

This analysis laid the groundwork for several recommendations that NCHEMS advances for consideration by state, agency, and institutional stakeholders in public postsecondary education.

Recommendation #1: Continue to productively engage all stakeholders in funding model and institutional reform.

In this report, an objective measure of funding adequacy has found that nearly all institutions in the state struggle to raise adequate funding from state and tuition sources to meet their estimated costs. However, the response to this finding must be more nuanced than simply increasing state funding to the institutions. Bringing the institutions up to more adequate levels of funding may indeed require changes in state investment, and it may also require changes in institutional structures to become more financially sustainable.

To reach more sustainable and adequate public support for each institution, the state should:

- Examine the assumptions within the adequacy model, reaching consensus around the main model drivers to ensure a commonly accepted definition of adequacy across legislative, agency, and institutional stakeholders. In particular, stakeholders should engage on the following levers, which have the largest impact on the model results:
 - The cost-sharing targets: How much of the cost of supporting public higher education should be borne by the state, by students, and, where applicable, local communities?
 - The scale, scope, and audience weights: Are the right student populations being supported, at the right levels, to ensure success?
 - The performance funding metrics and approach: Are the incentives appropriately targeted, and at the right levels?
- Establish as a matter of state policy the share of the adequate funding level that students in different types of institutions should bear. For institutions with local funding, the share

to be borne by local taxpayers should also be established as a matter of state policy. This local share should be sensitive to tax capacity and effort levels, not set as a fixed proportion.

- Task NMHED with running the adequacy model against the agreed-upon assumptions each year to inform funding conversations and funding model reforms.
- Continue to run the adequacy model and share findings from this study with higher education funding stakeholders each year. This analysis should be objective and rooted in the collective decisions made about assumptions within the model. It should serve as a guidepost for conversations about budgeting and funding for higher education each year.
- Empanel a technical advisory group to annually review the parameters and assumptions being used to run the funding model and provide input on adjustments that are aligned with state priorities. Additionally, NMHED and the legislature should collaborate to conduct a policy review of the funding model every 4-6 years.
- Review the findings from the adequacy model together with more expansive measures of institutional financial health, and in so doing, direct limited state resources to where challenges are most acute.
- Identify and understand the rationing tools that are available, or could be developed alongside, the funding model.

At the same time, NMHED should:

- Pursue actions to increase institutional collaboration and efficiency. In its coordinating role across institutions, NMHED should carefully consider where institutions can share academic programming and other key institutional services. Sharing these services provides key cost savings to the institutions collectively. NMHED should define metrics within the adequacy or performance model to incentivize these actions across the institutions.
- Respond to legislative directive to run the adequacy model alongside the state's funding model, using results to inform the state's funding approaches and decisions.
- Respond to legislative directive to use a technical advisory group to review the state's funding model and the adequacy model each year, making necessary technical adjustments each year and completing a larger, comprehensive review with recommended policy changes on a 4-6 year cycle. In its coordinating role, NMHED should use this group to communicate clearly and with a unified voice about state and tuition funding needs that have been objectively calculated using the model described in this report, with appropriate specifications.

Finally, institutions should:

- Pursue cost-saving strategies, which may develop through collaboration with other campuses, through internal (re)organization, or through other means. While the peer analysis completed in this report indicates that New Mexico's institutions are largely efficient, institutions must continue efforts to keep their costs in check.
- For institutions with local funding, take a more nuanced look at where local funding may be short of the cost-sharing targets. Institutions should also look at the long-term

sustainability of local funding sources and develop strategies to fill possible future gaps in local funding.

Recommendation #2: Enact funding policies to close adequacy gaps across institutions, with priority on institutions that are the most financially fragile.

As explored throughout this report, New Mexico maintains multiple funding streams to support higher education, such as general state appropriations, support for buildings and capital, RPSPs, and student financial aid, among others. However, these funding tools collectively lack cohesion and strategic, shared focus. The result is that stakeholders are missing a clear view of the total amount of state investment flowing to each institution, through which mechanisms, and for what purpose.

Using the model proposed by NCHEMS, NMHED should make clear that:

1. I&G funds be used to ensure that institutions are adequately funded—have the funds necessary to fulfill their missions (offer their programs and serve their differing student bodies).
2. Specifically identified RPSP funding is designated as purchase of service or capacity building funding within this model (more details about this recommendation are included in a companion report focused on the RPSP policies and process).

State funding for student financial aid should be recognized as funding to students that affects the affordability of higher education in the state and the ability of students to pay tuition and other costs of attendance at their selected institutions. Such funding should not be considered as funding to institutions. Instead, state-provided financial aid dollars should be considered when establishing cost-sharing targets as part of tuition revenue.

NCHEMS recommends that all stakeholders establish a priority of bringing all institutions up to a minimum level of adequate funding. The state share of this minimum level should be determined as the total requirement less the amount contributed by students and, in some cases, the amount provided through local tax support. A policy should be established to guide the calculation of student and local support, and this report has provided a possible approach to do so through the adequacy model.

If the state has insufficient funds to meet its obligation as calculated by the method described above, the allocation process should focus first on institutions that are the most financially fragile. To determine this, NMHED should gather or calculate an objective measure of each institution's financial health. NCHEMS recommends that the industry-standard [Composite Financial Ratio](#) be used for this purpose. Institutions generally have access to this ratio as part of their own financial monitoring, and it may also be used in some accreditation processes and is thus familiar to institutions. The measure uses an institution's net operating expenses, reserves and assets, and debt into account and provides a standardized measure of financial health. Most institutions' composite ratios exist within a range of -4 to 10. Lower measures indicate financial distress, while measures of 3 and above are generally considered financially healthy institutions.

With this information, NMHED should then consider the size of each institution's gap relative to calculated adequate funding. New dollars available for higher education should be prioritized to

institutions that have a Composite Financial Ratio below 3 and that demonstrate the largest gaps relative to calculated adequacy.

If the Composite Financial ratio is not available to NMHED, focus should be placed on moving institutions farthest from adequacy to adequate levels. To do this, NMHED should take the total calculated adequacy gap by sector and calculate the share of that gap by institution. This share represents the share of any new money for higher education that the institution should be allocated through its base support.

Because the Composite Financial ratio is comprised of many measures of financial health, it may lack the precision that some stakeholders would desire. NCHEMS agrees that the Composite ratio can be problematic; for example, it may use some areas of very strong health (i.e., sufficient reserves) to eclipse areas of acute weakness (i.e., insufficient operating revenue). NCHEMS fully supports the state developing a more nuanced approach to this recommendation than only relying on the Composite ratio, however, using the Composite ratio is a simple first step that will ideally shed sufficient evidence on where funding allocation decisions should be focused.

Recommendation #3: Align state appropriations, state financial aid, and tuition-setting policies.

The interplay of state appropriations, state financial aid, and tuition-setting policies presents a complex challenge for the state to address. Our external assessment of these policy areas suggests that they were developed independently, without considering how one area may impact the other. As it currently stands, the state's financial aid policy has placed constraints on increasing tuition at any of the campuses. At the same time, this analysis suggests that the institutions are unable to raise adequate revenue from tuition and maintain rates that are among some of the lowest in the nation. While affordability should continue to be a key state priority, consideration must also be given to the financial sustainability of New Mexico's institutions, especially those that enroll high proportions of low-income students.

Our third-party perspective also leads NCHEMS to believe that the state's financial aid policy posture has contributed to an understanding that financial aid could be largely responsible for ensuring adequate state funding to the institutions. However, all of the institutions within the state were designed to receive revenue from state appropriations and tuition. The state may choose to allocate its own dollars across both categories, but it cannot substitute one for the other unless the institutions are fundamentally redesigned.

None of the institutions within the system is 100 percent tuition-dependent; nor should they be, as public assets of the state and citizens of New Mexico. All of the public higher education institutions in New Mexico were designed to be sustained by a combination of state, student, and, where applicable, local resources. To be clear, the state should invest in both base appropriations to institutions and in financial aid support to students. However, one revenue stream is dedicated solely to institutional support, and the other must be conceptualized as a primary means of support for students to meet tuition costs.

As a first step, NMHED should be established, in policy, how much of the adequacy requirement is covered by the state and by students. In this report, we've proposed cost-sharing targets for each sector and applied them to a calculation of adequate funding. These targets are recommended

based on the historical funding capacity of the state and the targets present in other states. However, the broad adoption of these targets across legislative, executive, agency, and institutional stakeholders is key. NMHED is positioned to lead these discussions and to adopt regulations that codify the cost-sharing targets by sector.

From there, the state should recognize that some students will be unable to meet any tuition share required of them- they will need financial aid from federal and state sources. However, by setting tuition levels at the level of financial aid support that the state can afford, institutional ability to generate tuition is overly constrained, as demonstrated in the recommended cost-sharing targets applied in this report. NMHED and other state policy leaders should therefore act to decouple tuition-setting policy from state financial aid policy. Some institutions within the state have the potential to generate increased revenue from tuition; untapping this potential constrains revenue on these institutions.

Recommendation #4: Focus on resourcing institutions to increase performance.

New Mexico already has a performance funding model in place, and the adequacy model described in this report recommends that the state maintain a focus on performance. However, institutions that do not meet their minimum needs will not be well-positioned to excel within a state funding model driven primarily by performance. This reality requires that a focus on performance be introduced with care. Other states in the nation (for example, South Carolina) have learned that leaning into a performance model too fast or with too large a share of funds has unintended consequences that can cause unhelpful levels of disruption. Even states with large shares of their formula devoted to performance (i.e., Tennessee) contain metrics that provide institutions with some level of stability and predictability.

Indeed, if institutions do not have a minimum level of state support to operate sustainably and predictably, performance will suffer. This may well be a root cause of any perceived or actual performance gaps that currently exist within the institutions, although it should not be used as an excuse. An objective of this analysis was to gain a third-party perspective on whether a minimum level of state support has been achieved to reasonably maintain the state's higher education assets and enable institutions to fulfill their missions. Moving too aggressively to a performance funding model could therefore actually harm performance, especially at smaller institutions that are particularly financially fragile.

This is not to say that the state should not expect performance improvements from the institutions. However, without a minimum baseline of adequate funding, these expectations must be realistic. NCHEMS recommends that any movement towards performance include the following:

- Sector-specific metrics for the four-year institutions, branch campuses, and independent community colleges that are specifically tailored to their unique missions and state needs.
- The addition of a metric that rewards institutions for collaboration in the delivery of both academic programs and administrative services should be considered.
- Within the sector-specific metrics, predictability and consistency are key. The initial set of performance measures should remain in place for a sufficient time period for the institutions to demonstrate growth.

- Metrics should be simple, transparent, and easy to understand and measure.
- Measurement strategies should not rank institutions against one another, which risks creating an environment where a smaller group of institutions' growth can eclipse growth across all of the institutions within that sector.
- Preferred design would have a fixed dollar amount attached to each desired outcome produced rather than having a fixed pool of funds distributed on the basis of shares of outcomes in each category that each institution produces. This creates a degree of certainty for the institutions and makes clear the relationship between outcomes produced and funding received. In particular, it avoids the all-too-likely scenario in which an institution that shows improvement on desired outcomes actually *loses* performance funding when other institutions can show relatively greater levels of improvement. It also avoids exacerbating unproductive competition among institutions, a competition that would likely hinder collaboration and the development of shared solutions. Establishing a fixed amount per outcome creates a slight degree of uncertainty for the state in that funding requirements will be determined by outcomes produced rather than having a fixed obligation related to the outcomes funding pool.
- To further enhance the effectiveness of its performance funding model, NCHEMS recommends that New Mexico consider incorporating post-graduation earnings and transfer metrics into its performance-based funding formula. Measuring post-graduation earnings will provide a more direct evaluation of the economic outcomes of higher education, including social mobility for students and economic development for those who remain in the state. Including a post-graduation income metric would better align state funding with a graduate's financial success in the job market. Several states, including Florida and the community college system in California, utilize post-graduation income metrics. Transfer metrics would promote collaboration and acknowledge the work and costs associated with supporting students who pursue their education at different institutions. Multiple other states, such as Louisiana and Tennessee, utilize transfer metrics.

Final Thoughts

In response to a request from the New Mexico legislature that NMHED study the sustainability of state funding to higher education, NCHEMS was tasked with reviewing policies, practices, and data related to state higher education funding. To do this, NCHEMS worked with NMHED as well as a technical review committee (described in an appendix to this report) to develop a third-party, objective measure of adequate state funding. The model contains components for base funding, facility maintenance, serving students through mission-aligned programs and services, and performance. With input from NMHED and the technical committee, NCHEMS independently designed assumptions within the adequacy model and developed a model using data from FY2022 (the most recent year for which data from all sources were available.) This analysis found that many institutions in New Mexico do not receive adequate funding from the state or from tuition to meet their baseline expenses. In this report, we present detailed findings from this analysis, along with recommendations for stakeholders to consider. These recommendations are focused on ensuring that New Mexico maintains a strategically funded higher education enterprise that has the promise to continue serving New Mexico's students and employers for years to come.

Appendix 1: Project Timeline and Technical Review Committee

In December of 2023, the New Mexico Higher Education Department (HED) issued a Request for Proposals for a qualified vendor to complete a study of the state's Research and Public Service Projects (RPSP) process and Instruction and General (I&G) Base Funding. NCHEMS proposed a thorough review of the RPSP procedures, rules, and processes alongside a study of adequacy in base funding for public two- and four-year institutions in New Mexico. NCHEMS also committed to review the state's performance-based funding formula for higher education. In April of 2024, NCHEMS was awarded the contract to complete this study. In May of 2024, NCHEMS travelled to Santa Fe to launch the project with HED and an assembled technical review committee and submitted a request for policies and funding data from HED. As NCHEMS received the data, we also continued engagement with the technical review committee.

In addition to engagement with the technical review committee, NCHEMS met with the institutional CFOs and the Presidents in December of 2024.

NCHEMS prepared a draft report for NM HED in February 2025 and pursued additional touchpoints with the technical review committee during this time, with a final report delivered in the summer of 2025.

HED assembled a technical review committee for the purposes of maintaining and revising the state's current approach to higher education appropriations. This same committee also consulted with NCHEMS at several points as this study was developed. The following individuals were engaged as part of the technical review committee:

New Mexico Higher Education Department Staff

Stephanie Rodriguez, Secretary

Gerald Hoehne, Chief of Staff

Mark Chisholm, Director of Policy and Research

Taña Martinez, Director of Institutional Finance

Technical Review Committee Members

Nicole Macias, DFA

Connor Jorgensen, LFC

Marc Saavedra, CUP

Barbara Medina, NMACC

Vanessa Hawker, NMICC

Shaojie Ma, Research Institutions

Tony Major, Comprehensive Institutions

Todd Dekay, Branch Campuses

Edward DesPlas, Independent Community Colleges

ⁱ SHEEO SHEF Report

ⁱⁱ

https://static1.squarespace.com/static/5d9f9fae6a122515ee074363/t/672b94310b86e71fa0666a03/1730909237662/ISPaper_Variations+in+Local+FundingSourcesforCommunityColleges.pdf

ⁱⁱⁱ <https://shef.sheeo.org/state-profile/new-mexico/>

^{iv}

NASBO, https://higherlogicdownload.s3.amazonaws.com/NASBO/9d2d2db1-c943-4f1b-b750-0fca152d64c2/UploadedImages/SER%20Archive/2023_State_Expenditure_Report-S.pdf, Table 13.

^v <https://nces.ed.gov/programs/coe/indicator/cbc>

^{vi} <https://cew.georgetown.edu/wp-content/uploads/Projections2031-ES.pdf>

https://cdn.ymaws.com/www.ncan.org/resource/resmgr/policyadvocacy/economic_value_one_pagers/ncan_factsheet_nm.pdf

viii NCHEMS has also completed a second report on Research and Public Service projects, or RPSPs, as part of the funding sustainability study.

ix https://sheeo.org/wp-content/uploads/2022/10/SHEEO_2022_State_Approaches_Base_Funding.pdf

x https://sheeo.org/wp-content/uploads/2022/10/SHEEO_2022_State_Approaches_Base_Funding.pdf

xi <https://www.nmlegis.gov/handouts/ALFC%20062221%20Item%201%20Hearing%20Brief%20-%20Higher%20Education%20Funding%20Formula.pdf>

xii Completed courses are courses completed with a grade. Other coursework with no grade or with a Withdrawal code are not included in the SCH funding calculation.

xiii [InformED States Typology and Landscape of State Funding Formulas for Public Colleges and Universities from 2004 to 2020](#)

xiv [Performance-Based Funding and Certificates at Public Four-Year Institutions](#)

xv [The Unequal Impacts of Performance-Based Funding on Institutional Resources in Higher Education](#)

xvi [A Systematic Review of the Impact of Performance-Based Funding in the US](#)

xvii [NM HED Funding Formula Technical Guide 2020](#)

xviii [NMHED Funding Formula Meeting 10/22/21](#)

xix <https://lehd.ces.census.gov/applications/pseo/?type=earnings&compare=postgrad&specificity=2&state=08&institution=08°reelevel=05&gradcohort=0000-3&filter=50&program=52,45>

xx In FY22, the University of New Mexico total includes the Health Science Center (HSC) I&G facilities and salary data. While we attempted to remove the HSC revenue and expenditures as much as possible throughout the model, facilities and salary data could not be excluded. We acknowledge that inclusion of the HSC data may skew the results, but even with the inclusion of the data, the facilities, technology, and professional development totals only represent a small percentage of the total cost model.

xxi A limitation of using rural high school data is that it doesn't represent all rural learners. For instance, an adult learner might have graduated from an urban high school but has lived in a rural area for many years. To better support rural institutions and communities, an alternative approach is to include a rural institution weight in the state funding model, replacing the traditional student weight.

xxii The 2% local funding four-year institutions represents Northern New Mexico College mill levy revenue. No other four-year institutions receive local mill levy funding.