Western Interstate Commission for Higher Education

Effective Outcomes-Based Funding Models for Postsecondary Education

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Where New Mexico Can Invest for Greatest Impact

Education drives economic opportunity.

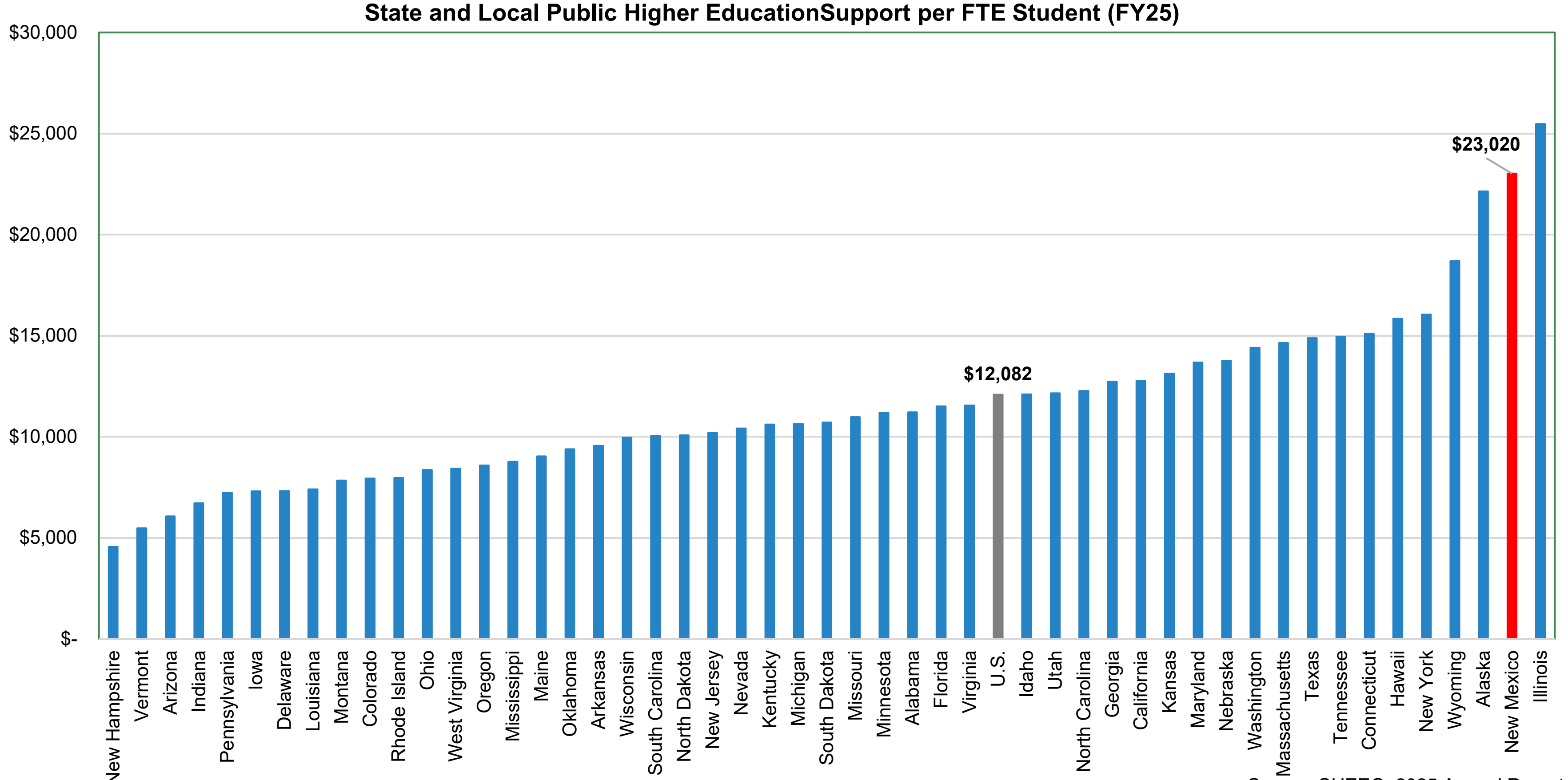
New Mexico's current fiscal strength creates a rare opportunity to address longstanding gaps in educational attainment and workforce skills. Strategic investments made today can increase future earnings, expand economic opportunity, and strengthen the state's workforce for decades to come.

1 Educational Attainment
Education sets the stage for future wealth

2 Earned Income
How does New Mexico create more high-wage jobs?

3 Employment
How does the economy change when more New Mexicans work?

New Mexico Leads the Nation in Higher Education Funding

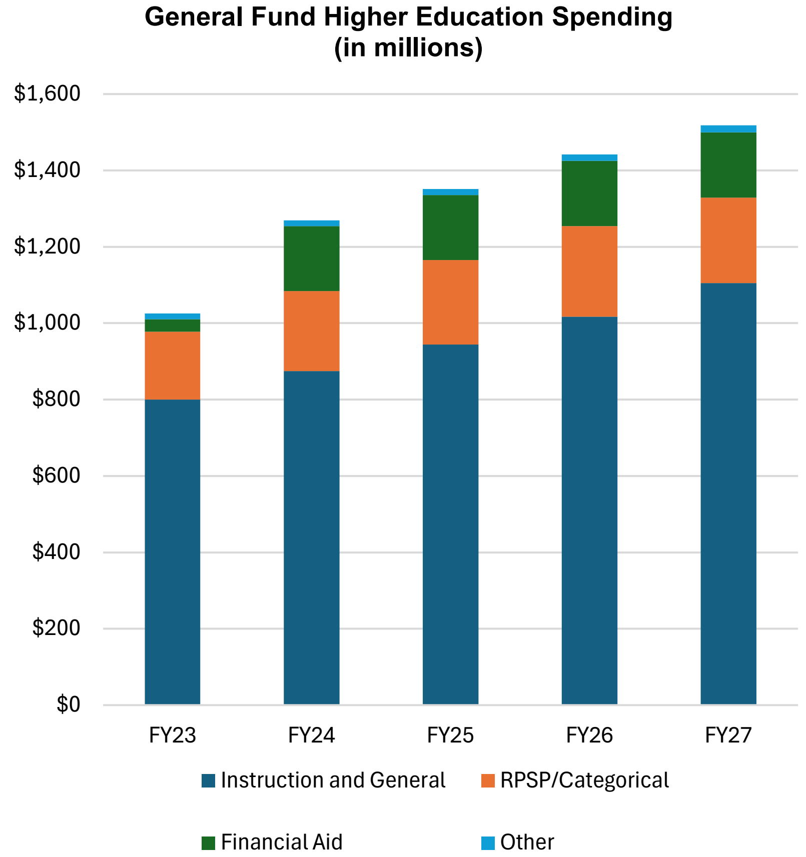


Source: SHEEO, 2025 Annual Report

Significant Budget Growth

New Mexico increased higher education appropriations by 48 percent over the past 5 years

- The largest increase was in financial aid due to the creation of a tuition and fee-free scholarship program.
- Spending for instruction still increased by 38 percent over this time.
- The Legislature has prioritized spending on the instruction and general base to provide colleges flexibility in spending priorities.



Source: LFC Files

Achieving Higher Education Benchmarks

- Nearly all New Mexico Colleges and Universities lag the nation in graduation and retention rates.
- The state has made significant investments to improve retention and graduation through affordability and support appropriations.
  - Created a $1 billion trust fund to support the lottery and opportunity scholarships.
  - Added $13.5 million for student support directly to base budgets since FY24.
  - Created a $20 million fund to reward institutions for increased retention.

Analysis of U.S. Versus N.M. Graduation Rates

Based on Completion Within 150% of Standard Time

Institution	Freshman Class size	U.S. Grad. Rate	NM 2024 Grad. Rate	Add'l Grads to Match U.S. Avg.
ENMU	<750	38.9%	45.1%	N/A
NMHU	<750	38.9%	26.2%	35
NM Tech	<750	38.9%	57.0%	N/A
Northern	<750	38.9%	28.7%	16
WNMU	<750	38.9%	32.2%	16
UNM	2,000+	66.2%	54.7%	299
NMSU	2,000+	66.2%	55.2%	248
Total				**614**

Source: LFC Files

Incentives for Improvement

(31) HIGHER EDUCATION DEPARTMENT 6,500.0 6,500.0

For a distribution to state-controlled four-year degree-granting higher education institutions for student retention initiatives. The distributions shall be determined by a formula created by the department ~~in consultation with the legislative finance committee~~. To qualify for a distribution, the current year retention rate for first-time, full-time students retained to the second year must exceed the retention rate for the prior year. ~~The formula shall provide an equal per student distribution provided that no institution shall receive an award greater than one and one half percent of the general fund appropriation for instruction and general expenses for the prior fiscal year.~~

- In 2025, the Legislature appropriated $20 million over three years to pay a retention bonus to four-year colleges and universities for improved retention rates.
- The funding is distributed by a formula which compares retention rates by two categories, gender and Pell Grant eligibility.
- For FY27, all institutions received additional funding of between 0.3 percent and 1.9 percent of their base appropriations due to improved retention.
- The average statewide retention rate climbed 1 percent over the prior year.

Distribution of FY27 Retention Bonus

(in thousands)

College	I&G	Amount	Percent $ Increase	Retention Change
NM Tech	$42,573.8	$800.7	1.9%	7.7%
NMSU	$190,699.6	$1,957.1	1.0%	1.9%
UNM	$299,760.2	$1,887.8	0.6%	0.8%
ENMU	$50,049.7	$162.2	0.3%	-3.7%
NMHU	$43,114.1	$800.7	1.9%	6.7%
Northern	$15,729.7	$264.9	1.7%	5.9%
WNMU	$33,851.7	$626.5	1.9%	0.6%
Total	**$675,778.8**	**$6,500.0**	**1.0%**	**1.0%**

New Mexico Funding Formula

- New Mexico uses a performance-based funding formula created in 2012 to allocate “new money” only. This is known as “base-plus” budgeting.
  - Base-plus budgeting means that institutions will never receive a reduction in funding because of the funding formula; appropriations can increase due to performance, but they do not decrease.
- New Mexico uses a single funding formula to allocate “new money” to the four-year and two-year sectors.
- The funding formula uses four primary measures, three measures of awards and one for end of course student credit hours. The measures are weighted for upper-division v. lower division courses and for subject matter (e.g. awards and credits in English v. Engineering).
- Formula adjustments are made each year by a technical committee including: the Higher Education Department (HED), Department of Finance and Administration (DFA), Legislative Finance Committee (LFC), and higher education institution associations and employees. The formula serves as a basis for HED to make funding recommendations the LFC, Governor, and Legislature.

New Mexico Funding Formula Changes

- The funding formula has been changed in several notable ways over the past four years:
  - 2023 (FY24): removed certificates of academic progress from awards measure while adding workforce certificates as eligible awards.
  - 2024 (FY25): increased the performance premium weight from 10% to 20%
  - 2025 (FY26): Increased the performance premium from 20% to 50%
  - 2026 (FY27): Streamlined measures by removing momentum points which provided an increase for students receiving 30 or 60 credit hours. Reduced the set allocation for research institutions. Increased the weight to student credit hours.

- The changes made reflect the Legislature's effort to streamline the formula, improve incentives for outcomes, and meet basic operational needs of institutions experiencing the fastest enrollment growth.

Funding Formula

The Higher Education Funding Formula is a base-plus allocation model for new higher education I&G appropriations.

- The formula is not defined in statute and is altered annually by HED, DFA, LFC, and institutional staff.