Report Summary

LAC

A Review of the Higher Education Performance Funding Process

June 2001

Members of the General Assembly requested that the Legislative Audit Council review the higher education performance funding process. We focused on the Commission on Higher Education's (CHE's) implementation of Act 359, enacted in 1996, which required the CHE to develop a funding formula based on performance. The act established 9 critical success factors and 37 indicators that could be used to measure an institution's performance.

FUNDS ALLOCATED BY PERFORMANCE

Although the law required the CHE to allocate all funds based on performance beginning in FY 99-00, only a small percentage of funding has been affected by performance scores. In FY 99-00 and FY 00-01, the years in which funding was to be based *entirely* on performance, the amount affected by performance scores was just 3% each year (see table).

FUNDS AFFECTED BY PERFORMANCE SCORES

FISCAL YEAR	STATE APPROPRIATIONS	AMOUNT AFFECTED BY PERFORMANCE	PERCENTAGE AFFECTED BY PERFORMANCE
97-98	$674,941,540	$4,625,003	1%
98-99	$705,145,286	$265,668,818	38%
99-00	$754,688,747	$25,794,241	3%
00-01	$802,499,188	$27,080,920	3%

See full report for table notes.

THE LAW REQUIRING APPROPRIATIONS FOR HIGHER EDUCATION TO BE BASED ENTIRELY ON PERFORMANCE SHOULD BE CHANGED.

If funding allocations were based solely on performance, extreme fluctuations in funding could result. Funding for institutions fluctuated as much as 30% – 40% annually in our simulated example of 100% performance funding. Also, the system of performance indicators the CHE uses to measure the institutions' performance does not provide a comprehensive assessment of institutional quality.

The actual amount the CHE has allocated based on performance scores has been in line with other states' experiences. In a 1997 national report, nine states reported they allocated between 1% and 3.4% of their funding based on performance. Allocating a portion of funds based on performance scores gives institutions an incentive to improve performance without having all funds subject to a system that could adversely affect their ability to plan for effective operations.

ELIMINATION OF DUPLICATION AND WASTE

Performance funding has had little effect on the elimination of waste and duplication in higher education. The CHE has promulgated regulations for the reduction, expansion, consolidation, or closure of an institution as a result of institutional performance, but the possibility of this occurrence is remote. Officials stated that the original intent of performance funding was to take funding from weak institutions and lead to their closure. However, no institution has received less money than it did the previous year as a result of performance funding.

It is extremely rare for a public institution to be closed. An official with the Education Commission of the States could identify just one public institutional closure in the U.S. in the past 50 years.

MEASURES OF PERFORMANCE

We found that the CHE has complied with the law in developing and implementing performance measures. Although the CHE has implemented changes each year to improve the measurement system, there are several reasons why it should not be used as the sole determinant of institutional funding.

CHANGES AND VOLATILITY

As the CHE worked to implement the performance indicators during the three-year phase-in period, the indicators used, the scoring system, and the standards for performance have constantly changed. The constant changes in the CHE's measurement system hinder a meaningful year-to-year assessment.

PROBLEMS IN MEASUREMENT

Some of the indicators cannot be easily measured or quantified (see table). Measures should be quantified or they may be subjective.

INDICATORS NOT EASILY MEASURED

INDICATOR	DESCRIPTION
2F	Community and public service activities of faculty for which no extra compensation is paid.
4A/B	Sharing and use of technology, programs, equipment, supplies, and source matter experts within the institution, with other institutions, and with the business community.
5C	Elimination of unjustified duplication of and waste in administrative and academic programs.
7C	Employer feedback on graduates who were employed and not employed.
6C	Post-secondary non-academic achievements of student body.

Narrow Focus of Indicators

The CHE has appropriately tried to identify quantifiable measures for scoring; it reduced the number of indicators to be scored for FY 01-02. However, a specific and narrow measure, such as the number of business, community, and public school representatives on academic program advisory boards, may not capture the institution's performance in the area of institutional cooperation and collaboration.

INDICATORS NOT ALWAYS APPROPRIATE

Although the law provides for the CHE to vary indicators based on institutional mission, the schools in a single sector have generally been evaluated by the same measures. This may not always be appropriate. For example, a majority of the same measures have been applied to MUSC and Clemson when they have radically different missions and student populations.

SECTORS IN S.C. HIGHER EDUCATION

Research Institutions
Four-Year Colleges and Universities
Two-Year Branches of the University of S.C.
Technical Colleges

OTHER ISSUES

The CHE has implemented a data verification process that provides improved control over information used to evaluate performance. However, this process could be strengthened if the CHE implemented a policy to correct any misallocation of funds that occurred due to data errors.

We found no material problems with the performance improvement grants awarded by the CHE to eligible institutions. However, the CHE should follow up and review expenditures and results of the grants.

Parity in Funding

Percentage of Need Funded FY 00-01

Institution	Percentage Funded
The Citadel	94.53%
USC – Sumter	87.76%
S.C. State University	85.70%
USC – Columbia	81.52%
Clemson University	81.05%
Francis Marion University	80.55%
USC – Union	80.41%
Winthrop University	79.03%
Medical University of South Carolina	78.80%
Lander University	77.45%
Denmark Technical College	74.49%
College of Charleston	73.96%
USC – Lancaster	71.63%
Coastal Carolina University	71.34%
USC – Aiken	70.67%
Technical College of the Lowcountry	69.49%
USC – Beaufort	68.33%
USC – Salkehatchie	68.25%
USC – Spartanburg	65.85%
Midlands Technical College	62.10%
Orangeburg-Calhoun Technical College	61.49%
Central Carolina Technical College	61.32%
York Technical College	61.18%
Trident Technical College	61.09%
Spartanburg Technical College	60.94%
Greenville Technical College	60.60%
Horry-Georgetown Technical College	60.16%
Tri-County Technical College	59.90%
Aiken Technical College	59.88%
Williamsburg Technical College	59.73%
Piedmont Technical College	59.64%
Northeastern Technical College (Chesterfield-Marlboro Tech)	58.82%
Florence-Darlington Technical College	58.36%

When Act 359 mandated that CHE allocate funds based on performance, the institutions did not start on a level playing field.

Prior to FY 91-92, appropriations act provisos required that all colleges and universities receive an equivalent percentage of funding according to need. Beginning in FY 91-92, the CHE allocated some institutions a higher percentage of needed funds than others in order to avoid schools receiving less funding than they had in the previous year. CHE shifted a percentage of other schools' funding to those with dropping enrollment. As a result, when Act 359 mandated that funding be based on performance, beginning in FY 97-98, the institutions did not start on an even basis. The technical colleges and others with high growth in enrollment were funded at a lower level than institutions with stable or declining enrollment.

Although the CHE planned to address these funding inequities, the performance funding law and lack of necessary funds have hindered this effort (see table). Officials stated that it would take approximately $56 million to bring the institutions into parity based on need. If the General Assembly intended that institutions have the same starting point for allocations based on performance, funds should be allocated to correct previous disparities. Gradual phase-ins would be needed to reduce disruptions based on sudden shifts of funds.

Formula to Determine Needs

With performance funding, the CHE developed a new formula, the Mission Resource Requirements (MRR), to determine institutional needs. This formula is similar to the formula used previously by the CHE, but results in greater fiscal needs. A consultant study found the MRR to be a valid funding method, and also found that South Carolina institutions were generally funded at a lower level than their peer institutions.

PERFORMANCE INDICATORS ENUMERATED IN S.C. CODE §59-103-30

The law established 9 critical success factors for higher education and 37 indicators that can be used to measure performance. The CHE plans to measure up to 14 indicators for FY 01-02 for each sector.

CRITICAL SUCCESS FACTOR	PERFORMANCE INDICATOR
1 Mission Focus	a) Expenditure of funds to achieve institutional mission b) Curricula offered to achieve mission c) Approval of a mission statement d) Adoption of a strategic plan to support the mission statement e) Attainment of goals of the strategic plan
2 Quality of Faculty	a) Academic and other credentials of professors and instructors b) Performance review system for faculty to include student and peer evaluations c) Post-tenure review for tenured faculty d) Compensation of faculty e) Availability of faculty to students outside the classroom f) Community and public service activities of faculty for which no extra compensation is paid
3 Classroom Quality	a) Class sizes and student/teacher ratios b) Number of credit hours taught by faculty c) Ratio of full-time faculty as compared to other full-time employees d) Accreditation of degree-granting programs e) Institutional emphasis on quality teacher education and reform
4 Institutional Cooperation and Collaboration	a) Sharing and use of technology, programs, equipment, supplies, and source matter experts within the institution, with other institutions, and with the business community b) Cooperation and collaboration with private industry
5 Administrative Efficiency	a) Percentage of administrative costs as compared to academic costs b) Use of best management practices c) Elimination of unjustified duplication of and waste in administrative and academic programs d) Amount of general overhead costs
6 Entrance Requirements	a) SAT and ACT scores of student body b) High school class standing, grade point averages, and activities of student body c) Post-secondary nonacademic achievements of student body d) Priority on enrolling in-state residents
7 Graduates' Achievements	a) Graduation rate b) Employment rate for graduates c) Employer feedback on graduates who were employed or not employed d) Scores of graduates on post-undergraduate professional, graduate, or employment-related examinations and certification tests e) Number of graduates who continued their education f) Credit hours earned of graduates
8 User-Friendliness	a) Transferability of credits to and from the institution b) Continuing education programs for graduates and others c) Accessibility to the institution of all citizens of the State
9 Research Funding	a) Financial support for reform in teacher education b) Amount of public and private sector grants

26 Years of Service

Note: Highlighted indicators to be scored in FY 01-02 in one or more sectors.

This document summarizes our full report, ***A Review of the Higher Education Performance Funding Process***. Reponses from state agencies are included in the full report. All LAC audits are available free of charge. Audit reports and information about the LAC are also published on the Internet at www.state.sc.us/sclac . If you have any questions, contact George L. Schroeder, Director.

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