South Carolina Commission on Higher Education

PERFORMANCE FUNDING AT A GLANCE

An Introduction to South Carolina's Performance Funding System

- What is Performance Funding?
- How does it work?
- What does it do for South Carolina?
- What are the lessons learned?
- What are some goals achieved?

Building Excellence Through Accountability

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What is Performance Funding?

Performance funding is a system for evaluating educational quality and allotting funds to higher education institutions based on their institutional performance. Performance funding has nine critical success areas—mission focus, quality of faculty, classroom quality, cooperation and `collaboration, administrative efficiency, entrance requirements, graduates' achievements, user-friendliness, and research funding. Each of these critical success areas has performance indicators which are scored. All indicator scores are averaged to determine an overall institutional score.

Performance funding has two parts. 1) The mission resource requirement (MRR) defines how much funding institutions need to continue to operate at acceptable levels. This is called the "needs" component and is done each year for the next year's budget process. 2) An evaluation component that assesses institutions on how they perform on a defined number of indicators that are outcome driven. This is often called the "report card" component.

When did Performance Funding begin?

The South Carolina General Assembly passed Act 359 of 1996 as part of a wide-sweeping educational initiative that called for changes in higher education. These changes a) redefined the role and governance structure of the South Carolina Commission on Higher Education, b) strengthened the authority of the Commission, and c) instituted Performance Funding. The Act also defined the mission for higher education and the mission for each sector of institutions—research, teaching, two-year regional campuses , and technical colleges—and outlined 37 indicators that could be used to evaluate institutional quality.

The South Carolina Commission on Higher Education was charged to work with the state's public colleges and universities to implement performance funding on a phase-in basis. During the first year, 1996-97, 14 indicators were assessed and \$4.5M was allotted to institutions based on performance. During Year 2, 1997-98, 22 indicators were assessed and \$270M was allocated based on performance. By 1998-1999, all indicators were assessed and institutional operating funds were based on performance funding. In 2000, a national consulting firm completed a validation study of the MRR. South Carolina is now planning for Year 8 of performance funding.

Why did Performance Funding occur?

Beginning in the 1990's shifting demographics and new technologies increased the demands on K-16 education. The rising costs of college in relationship to its value became an important focus for public constituents—taxpayers, parents, students, businesses, and policymakers. Higher education was recognized as a critical player in economic development with direct responsibility to educate a knowledgeable workforce and informed citizenry. This environment propelled accountability initiatives in K-16 throughout the U.S. During this past decade, South Carolina was the first state to implement a higher education accountability law that allotted direct operating funds to public higher education institutions based on numerical report card scores. Since then other states have followed with similar efforts.

What does the system do?

Performance funding gives the public access to information that compares the performance of similar institutions on similar indicators. For example, now a parent can compare similar institutions in one sector on such things as student graduation rates, the number of faculty teaching in their degree fields, or the pass rates of students on national certification exams often required in the workplace.

Performance funding allows the executive and legislative branches of government to be more confident that higher education is accountable to the public it serves. Information relevant to the needs of the state, such as institutional access, student achievement, faculty credentials, and graduation rates are now more readily available because of performance funding. The system also allows the South Carolina Commission on Higher Education to better evaluate institutions using appropriate comparable data.

Performance funding allows institutions to demonstrate their achievement on indicators identified by the S.C. General Assembly. In turn, the General Assembly planned a system that would increase funding to institutions that excelled. Recently, however, state support for higher education has shifted to student scholarships and grants designed to increase college access while institutional operating funds allotted through performance funding have decreased. The result of climbing enrollments and declining operating funds will affect institutional budget priorities regardless of the score an institution might receive. This will be a continuing challenge for the performance funding system.

How does Performance Funding work?

After seven years of implementation, enough data on the 37 indicators have been gathered to enable the South Carolina Commission on Higher Education, working with the public colleges and universities, to identify a "core" of critical indicators for all institutions. Currently, this "core" is measured every year for all 33 public institutions. In addition, there are indicators that are "mission specific" to a sector. For example, the research sector has more research-oriented indicators whereas the technical college sector has more workforce-oriented indicators.

Currently, direct scores are given for no more than 14 indicators for each sector. The remaining indicators have been either accomplished by the institutions and are monitored by the Commission or are now considered within the 14 scored indicators. Points are given for improvement and for reaching certain standards of excellence. Standards are based primarily on comparisons with national peer institutions. Performance funding scores most directly affect "new dollars" appropriated by the General Assembly, but the cumulative effect of multiple years of scoring on institutional performance now influences all operating funds at an institution.

What does an "indicator" score mean?

Institutions are given indicator scores of "1" (below standards), "2" (achieving standards) or "3" (exceeding standards). Indicators that have multiple parts are usually averaged for one overall indicator score. Standards are numerical ranges that are set for most indicators based on national peer data whenever possible.

Standards are usually expressed as ranges which allow institutions flexibility to vary slightly on an indicator's performance from year to year. When an institution scores below a "3" but has substantially improved, an improvement score of ".5" may be assigned. This allows institutions that may be below achieving a standard on a specific indicator to be rewarded for their improvement.

When possible, standards are set using national peer data. Standards and indicators are reviewed at least every three years to determine if changes are necessary.

What does an institution's score mean?

After the indicators are scored for an institution, all indicator scores are added and divided by the number of indicators. The resulting average score falls in a numerical range assigned to one of five categories:

- Substantially Exceeds Standards
- Exceeds Standards
- Achieves Standards
- Does Not Achieve Standards
- Substantially Does Not Achieve Standards

Each category allows an institution to receive a certain amount of funding based on the need expressed in the Mission Resource Requirement (MRR) for that institution. However, when there is no increased state funding for institutions' operating expenses, then receiving a score of "achieves" or above does not financially reward an institution, but scoring a "Does Not Achieve" or lower would continue to decrease institutional funding. To support continued improvement through performance funding, at least minimal increases are necessary in state funding for institutional operating expenses.

Why is South Carolina leading the nation in higher education accountability?

Because South Carolina entered higher education accountability early and instituted a funding system built on both institutional need and evaluation, South Carolina has been carefully watched by other states. In 1999, the U.S. Department of Education awarded South Carolina a three-year grant from the prestigious Fund for the Improvement of Postsecondary Education (FIPSE). The U.S. Department of Education wanted to know what the effects were of performance funding on institutional budgeting,planning and student outcomes.

In September 2002, the U.S. Department of Education awarded South Carolina another three-year grant, the largest in FIPSE's history, to lead four other states — California, Connecticut, Arkansas and Oklahoma — in a national study on how policy makers can better use accountability to contain college costs, improve student achievement and renew public trust. This award allows South Carolina and its colleagues to share what they have learned in higher education accountability with governors, legislators, institutional presidents, and others in policy-making roles.

What are some lessons learned?

Comparative data is not readily available for educational outcomes.

Defining educational outcomes based on data is often complicated. Data must first be gathered in a standardized manner so comparisons are valid (apples are compared to apples). Early in performance funding, it was assumed that data were the same because of federal guidelines, but this was not always the case. Corrections were made, and now South Carolina is known as one of the "cleanest data" states in the nation, with a vastly more effective ability to advance research on higher education outcomes and accountability.

There are costs associated with implementing educational accountability systems.

Accountability systems using comparative data have costs associated with their implementation. To accomplish performance funding, computer systems often needed to be re-programmed to capture critical data, personnel were reassigned to use data to inform policy makers, and areas of responsibility were shifted inside some institutions because of a mandate from outside the institution. Institutional funding was shifted to implement and maintain performance funding and to focus improvement in areas within an institution that might not have been targeted prior to performance funding.

For example, prior to performance funding, achieving accreditation in a degree program was not a goal for all institutions. Some did not want to implement this process, believing their dollars should be spent elsewhere on campus. In those instances, the Commission had to weigh the needs and objectives of an individual institution with those of the state and the right of students to receive the same high quality from similar degree programs at similar institutions. Some would argue that program accreditation does not necessarily guarantee program quality; however, to date it is the best recognized educational standard available.

The Commission on Higher Education and the state's public institutions of higher education have worked together to decrease costs associated with performance funding by using required federal data more, streamlining the reporting process, and using performance funding data for other campus uses.

What are some goals achieved?

The following goals have been achieved since the implementation of Performance Funding:

- More academic programs have received accreditation (20% more) than prior to Performance Funding
- 25 degree programs without accreditation are no longer offered at S.C. public institutions
- Post-tenure review occurs at least every six years at all public institutions.
- All faculty are reviewed annually.
- Student evaluations of faculty must be used in all faculty reviews
- Electronic transmission of student transcripts now allows for an easier and quicker student transfer process
- State-wide transfer of course credits from technical to senior institutions is more standardized
- Campus budget reallocations to academic areas are occurring
- Average S.C. public institutions' faculty salaries have reached at least 75% of average faculty salaries nationwide
- Graduation rates are increasing
- Minority enrollments and minority student retention are increasing
- Despite lower than average national SAT scores, South Carolina college students score higher than average on national standardized certification exams often required for the workplace

Communication within the higher education community has greatly increased during performance funding.

In part, communication has increased during performance funding because of necessary data discussions; however, of greater value has been the increased communication between an agency charged with regulating higher education and the institutions actually implementing those regulations. Performance funding has resulted in stronger communication about the effects of indicators and campus implementation issues. In addition, institutions are now competing and collaborating using known, standardized data. Since the implementation of performance funding, the institutions and the Commission on Higher Education more frequently base policy decisions on comparative data. This continues to reflect a changing culture at all levels of higher education.

Although some may say the above goals may have been achieved without performance funding, that cannot be known. Neither can it be known that performance funding was the *only* reason for these achievements. What is known and can be documented is that these changes occurred and are continuing to occur since South Carolina implemented performance funding.

Whether it is the act of shining a spotlight on an area or of implementing different policies in an area that produces change, the fact is, performance funding has undisputedly caused higher education to look at itself with a more critical eye.

In the past seven years, performance funding in South Carolina has most definitely focused state leaders on documenting and re-affirming the value of a college education—the value to the state, to our constituencies, and most importantly to our students who enter the doors of our institutions with the goals of earning degrees and certificates, and becoming better educated citizens.

South Carolina Commission on Higher Education

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To learn more about South Carolina Performance Funding go to:
http://www.che.sc.gov