Performance Funding

I. Background

The 1999 Session of the General Assembly, in House Bill 168[1], directed the State Board of Community Colleges (State Board) "to implement the findings of the consultant's Phase IV Funding Study Report" on performance budgeting. A "task force"[2] was assembled by President Martin Lancaster to study issues relating to the use of State Board approved performance measures and standards for funding purposes. The State Board adopted on February 18, 2000 a "Report from the Performance Funding Implementation Task Force", setting forth recommendations to the General Assembly, as required by law[3], on the implementation of Performance Budgeting. The report identified the measures and standards for use in the process. The legislation and the report approved by the State Board enabled the Board to:

"authorize each institution meeting the new performance standards to carry forward funds remaining in its budget at the end of each fiscal year in an amount not to exceed two percent (2%) of the State funds allocated to the institution for that fiscal year."[4]

II. Review of the Content of Special Provision

There were six pertinent parts within the special provision that directed the State Board how to carry out legislative intent. These parts and directives include:

(1) The creation of new accountability measures and performance standards;
(2) Authorization to carry forward at the end of a fiscal year an amount not to exceed 2% of the State funds allocated to the institution;
(3) The designation of five required performance measure and the ability to select one additional measure for performance funding, and an six additional measures that would be reported, for a total of twelve measures;
(4) A requirement for each college to publish its performance on the six measures;
(5) A mandatory annual report to the Joint Legislative Education Oversight Committee and the Fiscal Research Division by March 1 of each year; and,
(6) Effective dates of July 1, 1999; July 1, 2000; and July 1, 2001.

The 2000 Session of the Assembly revisited the State Board's Performance Budgeting program by making several "clarifications" to G.S. 115D-31.3. First, the Assembly stated that the State Board "shall evaluate each college on six performance measures." The six measures consist of five required measures, plus one measure selected from the remaining six eligible measures. The Assembly further stated that "for each of these six performance measures on which a college

[1] Ratified as Session Law 1999-237
[2] the Performance Funding Implementation Task Force
[3] Section 9.2(b) of S.L 1999-237
[4] 115D-31.3

performs successfully or attains the standard of significant improvement, the college may retain and carry forward into the next fiscal year one-third of one percent (1/3 of 1%) of its fiscal year-end General Fund appropriations."

The 2001 Session of the Assembly, as requested by the State Board of Community Colleges, amended[5] the "mandatory performance measures" by clarifying the "Goal Completion" measure. The Assembly amended this measure by DELETING "goal completion of program completers and non-completers, and SUBSTITUTING "The proportion of those who complete their goal."

III. Current Performance Funding Data: Charts and Interpretations

Data collection and reporting on performance measures is now in its fourth annual cycle. Due to the timing of the availability of data, this report will present information from the 2004-05 collection cycle. Data from the 2005-06 cycle should be ready in late May. It is important to note that the data collected are "after the fact" data. That is to say, the data reflect college performance from the previous year. Just as community colleges are funded based on FTE earned the prior year, performance data indicates how well the colleges did on specific measures during the prior year and performance funding is based on that prior year's results. Thus, the 2004-05 performance report provides data on college performance during the 2003-04 academic year.

Table 1 presents a summary of the performance of the System on the 12 accountability measures. As stated earlier in this report, five (5) of the 12 measures are required performance funding measures for all community colleges; those five being the first five listed in the Table. Colleges designate their sixth measure from the remaining ones shown in the Table with the caveat that Program Enrollment cannot be used for performance funding. The performance of the System as a whole can be seen in Table 1 along with the number of colleges that met each standard and the number of colleges not meeting a standard but showing significant improvement over the previous year's performance.

As can be seen in Table 1, the System, as a whole, exceeded all performance measures with the exception of the performance of college transfer students. It can further be seen that all 58 community colleges met or exceed the required performance on three (3) of the performance measures. It is important to note that on three measures directly linked to workforce development (Employment of Graduates, Employer Satisfaction with Graduates, and Business/Industry Satisfaction with Services Provided), the System's performance exceeded 95 percent. Table 1 also shows that less than half the colleges met or exceeded the standard set on two (2) of the twelve measures (Passing Rates on Licensure/Certification Exams for First-Time Test Takers; Performance of College Transfer Students). Caution should be used in interpreting these results, however; since this may be an issue with the standard itself rather than a performance issue.

Table 2 provides a summary chart on which colleges either met or showed significant improvement on each of the 12 measures. In addition, data on the total number of measures met or demonstrated significant improvement, the total number of performance measures met or demonstrated significant improvement, and the designation of Superior Performance by a community college can be seen. In

[5] House Bill 438, as Ratified.

2004-05, five (5) colleges had the distinction of meeting or showing significant improvement on all twelve measures. Thirty seven (37) colleges achieved the designation of Superior Performance.

Whereas the 2004-05 report demonstrates the high level of performance of the 58 community colleges, it is by looking at the changes that have occurred in the System over the past five years that truly shows the impact of the performance measures. In 2000-01, 3 colleges met or showed significant improvement on all 12 measures, in 2004-05 this number had grown to 5. In 2000-01, only five colleges earned the designation of Superior Performance, this number grew to 37 in 2004-05. Since 2000-01 colleges have been developing and implementing Action Plans on those measures that they did not meet the performance standard. The data are showing the positive impact of those Action Plans and are reflected in the higher levels of performance of the colleges on all measures.

IV. <u>Calculation of the Carry Forward</u>

A college's individual performance is the determining factor in its ability to carry forward its own funds to a subsequent fiscal year. A college may carry forward up to .33% of its final State Appropriations for each measure for which it either meets the standard or improves (to be defined) its performance. The maximum amount that may be carried forward is two percent (2%). The formula looks like this:

Final State Appropriations X 2% = Eligible Funds

Eligible Funds / 6 = Amount per Measure

There are 6 measures. Each measure therefore is = 1/3rd of 1% (.33%)

The General Assembly also spoke to the issue of "superior performance." This term is defined as the point at which a college "performs successfully on at least five of six performance measures." The process of allocating funds to the group of colleges that attains this status is specified as follows:

"Funds not allocated to colleges in accordance with (the first 2% process) shall be used to reward superior performance. After all State Aid budget obligations have been met…"

The key words are "after all State Aid obligations have been met." This means that after the Division of Business & Finance has paid all outstanding invoices on behalf of the colleges (Worker's comp, unemployment, longevity, etc.), whatever is left may be divided equally among the colleges that qualify, as noted by the criteria above.

The formula for this is illustrated as follows:

Funds left over after first 2% calculated

MINUS

System obligations that must be paid by the System Office [unemployment, workers comp, etc]

EQUALS

SUPERIOR PERFROMANCE POOL [$$$ equally divided by the number of eligible colleges]

V. Permissible Uses of Funds[6]

The General Assembly has defined the uses of the funds that are carried forward by the college. The permissible uses include:

1. Purchase of Equipment
2. Initial Program Start-up Costs Including Faculty Salaries for the first year of a program
3. One-time Faculty and Staff Bonuses

The funds may not be used for continuing salary increases or for other obligations beyond the fiscal year into which they were carried forward. The funds shall be encumbered within 12 months of the fiscal year into which they were carried forward.

VI. Performance Funding - Carry Forward Earned & Expended by Colleges in FY 2004-05

As noted earlier, the fifty-eight community colleges are permitted to carry forward funds from one fiscal year into the next, for expenditure over a two-year period. There were 46 colleges that carried funds forward from FY 2003-04 to 2004-05. The total amount carried forward was $6,166,476. During FY 2004-05, $5,616,478 (91.1%) was expended by the colleges, and the remainder ($550,058) was carried forward to FY 2005-06, as permitted by law.

Of the $6.17 million carried forward, colleges set aside $3,969,504, with which to give performance bonuses and to start-up new academic programs. As of June 30, 2005, $3,295,066 had been expended on bonuses, and $141,762 had been expended on the start-up of new academic programs. An unexpended balance of $532,676 remained. Most of the unexpended balance was programmed for further implementation of new academic programs.

The remainder of the $6.17 million of carry forward funds ($2,196,972) was set aside to purchase much needed equipment. As an indicator of how desperate colleges are for new instructional equipment, 99.2 percent ($2,179,590) of these funds was expended by June 30, 2005.

[6] As defined by the General Assembly in Session Law 2000-67

A detailed, college-by-college report of carry forward, established budget, and expenditures is found in Tables 3, 4 and 5.

VII. Recommendations for Modifications to Performance Funding

One of the provisions of the original legislation creating accountability measures and performance funding was the annual review of the measures and methodologies being employed to collect and analyze data with the intent of ensuring that data presented on performance measures was valid, reliable, and meaningful. With that objective as a guide, the following recommendations are proposed for 2006-07.

1. The reporting date for this report be moved from March 1 to May 1. Moving the reporting date would allow for the completion of the reporting cycle for that year, thus resulting in the availability of more recent data.

2. A review of two performance measures (Passing Rates on Licensure/Certification Exams for First-time Test Takers and Performance of College Transfer Students) be undertaken to determine the validity and reliability of the measures and standards and to recommend modifications if deemed appropriate.

3. A review of all measures to determine if alternate measures should be utilized; particularly those measures involving surveys.