THE NORTH CAROLINA
COMMUNITY COLLEGE SYSTEM
Performance Funding
2005-06 Report

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

[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

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 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. <u>**Current Performance Funding Data: Charts and Interpretations**</u>

Data collection and reporting on performance measures is now in its seventh annual cycle. Due to the timing of the availability of data, this report will present information from the 2005-06 collection cycle. Data from the 2006-07 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 2005-06 performance report provides data on college performance during the 2004-05 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 five (5) 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

[5] House Bill 438, as Ratified.

improvement, and the designation of Superior Performance by a community college can be seen. In 2005-06, seven (7) colleges had the distinction of meeting or showing significant improvement on all twelve measures. Thirty six (36) colleges achieved the designation of Superior Performance.

Whereas the 2005-06 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 2005-06 this number had grown to 7. In 2000-01, only five colleges earned the designation of Superior Performance, this number grew to 36 in 2005-06. 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. Calculation of the Carry Forward

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% or .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

College Bills that must be paid by the System Office

EQUALS

SUPERIOR PERFROMANCE POOL {$$$ equally divided by # 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 By Colleges But Not Awarded

The attached budget worksheet of carry forward has been prepared by Business and Finance staff, with data supplied by the Planning and Research Section of the Administration Division. It should be noted that that colleges were eligible to carry forward $13.2 million. Based upon their performance, colleges were able to qualify for $3,862,216 was based upon the formula noted in Section IV above. In addition, as a result of their "superior performance", thirty-six colleges were eligible to carry forward $3,254,832 million in superior performance funding. Therefore, the total carry forward was $7,117,048. The attached Chart ("Performance Funding Distribution for FYE 2005-06 Carry Over to 2006-07)

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 made for changes to the General Statutes in the 2007 Session of the General Assembly:

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

§ 115D-31.3. ***Institutional*** **Performance** **~~budgeting~~** ***Accountability*****.**

(a) Creation of Accountability Measures and Performance Standards. – The State Board of Community Colleges shall create new accountability measures and performance standards ~~to be used for performance budgeting~~ for the Community College System. Survey results shall be used as a performance standard only if the survey is statistically valid. The State Board of Community Colleges shall review annually the accountability measures and performance standards to ensure that they are appropriate for use in ~~performance budgeting~~ ***recognition of successful institutional performance***.

(b) through (d) Repealed by Session Laws 2000-67, s. 9.7, effective July 1, 2000.

(e) Mandatory Performance Measures. – The State Board of Community Colleges shall evaluate each college on the following ~~12~~ ***8*** performance standards:

(1) Progress of basic skills students,

(2) Passing rate for licensure and certification examinations,

~~(3) The proportion of those who complete their goal,~~

~~(4) Employment status of graduates,~~

~~(5)~~ ***(3)*** Performance of students who transfer to ~~the university system~~ ***a four year institution***,

~~(6)~~ ***(4)*** Passing rates in developmental courses,

~~(7)~~ ***(5)*** Success rates of developmental students in subsequent college-level courses,

~~(8)~~ ***(6)*** The level of satisfaction of students who complete programs and those who do not complete programs,

~~(9)~~ ***(7)*** Curriculum student retention and graduation, ***and***

~~(10) Employer satisfaction with graduates,~~

~~(11)~~***(8)***Client satisfaction with customized training**.**

~~(12) Program enrollment~~.

The State Board may add measures to those identified in section (e), but may not decrease the number.

(f) Publication of Performance Ratings. – Each college shall publish its performance on the ~~12~~ ***8*** measures set out in subsection (e) of this section (i) annually in its electronic catalog or on the Internet and (ii) in its printed catalog each time the catalog is reprinted.

The Community Colleges System Office shall publish the performance of all colleges on all ~~12~~ ***8*** measures ~~in its annual Critical Success Factors Report~~.

(g) ~~Performance Budgeting;~~ Recognition for Successful ***Institutional*** Performance. – For the purpose of ~~performance budgeting~~ ***recognition for successful institutional performance***, the State Board of Community Colleges shall evaluate each college on ~~six performance measures. These six shall be the five set out in subdivisions (1) through (5) of subsection (e) of this section and one selected by the college from the remainder set out in subdivisions (6) through (11)~~ ***the 8 performance measures***. For each of these ~~six~~ ***eight*** performance measures on which a college performs successfully ~~or attains the standard of significant improvement~~, the college may retain and carry forward into the next fiscal year ~~one-third~~ ***one-fourth*** of one percent (~~1/3~~ ***1/4*** of 1%) of its final fiscal year General Fund appropriations. ***If a college demonstrates significant improvement on a measure that has been in use for three years or less, then the college would be eligible to carry-forward***

one-fourth of one percent (1/4 of 1%) of its final fiscal year General Fund appropriations for that measure.

(h) ~~Performance Budgeting;~~ Recognition for ~~Superior~~ ***Exceptional Institutional*** Performance. – Funds not allocated to colleges in accordance with subsection (g) of this section shall be used to reward ~~superior~~ ***exceptional institutional*** performance. After all State aid budget obligations have been met, the State Board of Community Colleges shall distribute the remainder of these funds equally to colleges that perform successfully on ~~at least five of the six~~ ***eight*** performance measures ***and meet the following criteria:***

(1) The passing rate on all reported licensure /certification exams *for which the colleges have authority over who sits for the exam* ***must meet or exceed 70% for first-time test taker, and.***

(2) The percent of college transfer students with a 2.0 gpa after two semesters at a four-year institution must equal or exceed the performance of students who began at the four-year institution (native students).

The State Board may withhold the portion of funds for which a college may qualify as an exceptional institution while the college is under investigation by a federal or state agency, or if its performance does not meet the standards established by the Southern Association of Colleges and Schools, State Auditors Office, or State Board of Community Colleges. At such time as the investigations are complete and the issues resolved, the State Board may release the exceptional performance funds to the college.

(i) Permissible Uses of Funds. – Funds retained by colleges or distributed to colleges pursuant to this section shall be used for the purchase of equipment, initial program start-up costs including faculty salaries for the first year of a program, and one-time faculty and staff bonuses. These funds shall not be used for continuing salary increases or for other obligations beyond the fiscal year into which they were carried forward. These funds shall be encumbered within 12 months of the fiscal year into which they were carried forward.

(j) Use of funds in low-wealth counties. – Funds retained by colleges or distributed to colleges pursuant to this section may be used to supplement local funding for maintenance of plant if the college does not receive maintenance of plant funds pursuant to G.S. 115D-31.2, and if the county in which the main campus of the community college is located:

(1) Is designated as a Tier 1 or Tier 2 county in accordance with G.S. 105-129.3;

(2) Had an unemployment rate of at least two percent (2%) above the State average or greater than seven percent (7%), whichever is higher, in the prior calendar year; and

(3) Is a county whose wealth, as calculated under the formula for distributing supplemental funding for schools in low-wealth counties, is eighty percent (80%) or less of the State average.

Funds may be used for this purpose only after all local funds appropriated for maintenance of plant have been expended. (1999-237, s. 9.2(a); 2000-67, s. 9.7; 2001-186, s. 1; 2006-66, s. 8.9(a).)