

Performance-Based Budgeting

South Carolina's new plan mired in detail and confusion

By William Trombley
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COLUMBIA, SOUTH CAROLINA

THIS IS HOW Austin Gilbert tells the story of South Carolina's decision to launch an ambitious new performance-based budgeting plan for public higher education.

Gilbert runs a small construction company in Florence, S.C. He is also chairman of the South Carolina Commission on Higher Education. In that capacity, he was one of 12 people who met for several months in 1995 to ponder the future of South Carolina's 33 public colleges and universities.

The study group, appointed by the state legislature, included four state senators, four members of the House of Representatives and four people, including Gilbert, from business and industry. Their discussions were guided by a North Carolina management consultant named Terry Ainsworth, who asked the group to read two books: "Break Point and Beyond," by George Land and Beth Jarman, and "The Fifth Discipline," by Peter Senge.

The "Break Point" book made a deep impression on Austin Gilbert.

"They made the point that an organization is like an organism that is constantly evolving," he recalled during an interview. "In the early stages there's a lot of enthusiasm and it's okay to make mistakes. Then you get to the second phase—the 'break point'—and the organization starts to become more rigid, and mistakes are not tolerated as much. People begin to say, 'We don't do it that way around here.'"

"In the third phase, beyond the 'break point,' you have to reinvent the organization," Gilbert continued, "with supportive leadership that looks at things in a new and different way, encourages new thinking and says it's okay to

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make mistakes. We decided we were in that phase and we had to reinvent higher education in South Carolina."

The discussions were marked by "good will and camaraderie," Gilbert said. "This was a peak experience for me...everybody put the issues right out on the table,

and the openness of the discussions was wonderful."

None of the 12 members came from higher education, although the chair, state Senator Nikki G. Setzler, a Democrat, has been chairman of the Senate Education Committee for eight years, and Gilbert has been a member of the state higher education coordinating body for five years.

"There was kind of a gentlemen's agreement that we didn't want that kind of pressure," Gilbert explained.

Administrators and faculty leaders were in the audience when the group met but could not speak unless they were asked specific questions. Few outside experts were consulted and most of their advice was ignored.

The committee members were "largely unencumbered by knowledge of higher education," remarked Jack Parson, a political science professor at the College of Charleston and head of the statewide Council of Faculty Chairs.

"You had business people and others who thought they knew how things should be done in higher education," said Sally Horner, executive vice president at Coastal Carolina University, a 4,500-student campus near the popular resort community of Myrtle Beach. "This would be like me sitting on a committee to study the South Carolina banking industry."

But Terry Ainsworth, the group's "facilitator," said the absence of college administrators and faculty members "could be a positive—the people involved didn't have any particular biases."

Toward the end of their deliberations, study group members began to decide which were "critical success factors" for public higher education in the Palmetto State. Using keypads called "innovators," so no one could see how others were voting, they selected 37 "performance indicators," ranging from graduation rates to "use of best management practices."

Photos by Gordon Humphries for CrossTalk



The new performance-based budgeting plan for higher education "is costing the state a fortune," says University of South Carolina's Marcia G. Welsh.



Chairman Austin Gilbert, of the South Carolina Commission on Higher Education, is a strong supporter of the new plan.

Act 359, passed by the General Assembly and signed by Governor David M. Beasley, mandated that future funding of public higher education should be based on these 37 indicators, not on the enrollment-driven formula of the past.

This year, 25 percent of the increased funding for public higher education, or about \$4.6 million, was awarded according to the indicators. Next year, 75 percent of the “new money”—perhaps \$30 million or more—will be distributed in this manner. Beginning with the 1999-2000 academic year, 100 percent of state

funding is to be allocated on the basis of the 37 “quality indicators.”

Or so the theory goes. As a practical matter, each public institution will receive a “minimum resource requirement” (MRR), and only 15 percent or less of its funding will depend on performance.

“The MRR is really a base budget for each institution,” said a member of the higher education commission who requested anonymity, “but we can’t call it that and we can’t refer to a ‘funding formula’ because the PR we’re putting out says we’re awarding 100 percent of the money according to performance.”

John E. Smalls, director of finance for the higher education commission, predicted the new budget approach will mean “no more than a one or two percent change for any given institution” because it will be “politically unacceptable” for the state to reduce financial support for any college or university significantly on the basis of poor performance.

The legislation also calls for the closing or merger of low-performing schools, but no one interviewed during ten days in the state thought local politicians would allow that to happen.

Performance-based budgeting has grown increasingly popular in recent years. A study by the Nelson A. Rockefeller Institute at the State University of New York, found that two thirds of the 50 states use performance measures in some way and that more than half report these measures in the budget process. However, in most states less than five percent of the higher education budget is tied to performance, and no other state has tried to use as many as 37 measurements of quality.

Austin Gilbert said he did not think 37 indicators were too many. “The construction industry has 40,” he said.

David Maxwell, a former Clemson provost and now a member of the Commission on Higher Education, keeps asking why there are 37 measures and not 36, 38 or 110. “The only answer I get is that the law says 37,” Maxwell said.

Supporters of the South Carolina plan say it will convince a dubious public that the state’s public colleges and universities are doing a good job and deserve more financial support.

Public support for higher education is said to have waned in South Carolina in recent years. There have been complaints about faculty members who do not teach enough, unprepared students and low graduation rates. Some businessmen believe good jobs are being lost to other states because South Carolina colleges and universities are not producing enough well-trained graduates.

Public confidence is thought to have been further weakened by the escapades of former University of South Carolina President James B. Holderman, who resigned in 1990 after an expense account scandal and later was imprisoned for lying to federal bankruptcy officials.

State Senator Setzler and others believe that requiring greater accountability from public campuses through performance-based budgeting will help to restore public confidence.

“I don’t think there’s any question that, with this movement to excellence, you will see legislative and public support for appropriate funding for higher education,” Setzler said in an interview. “And that clearly was one of the goals of the committee and the legislation.”

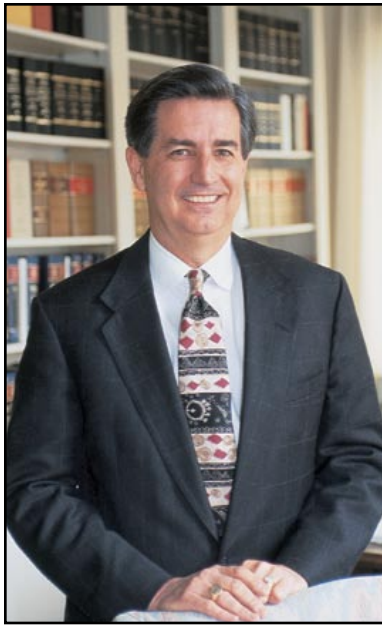
Others are not so sure.

“When all is said and done, I don’t think there will be more money for higher education,” said David Fleming, director of institutional research at Clemson University, one of three research institutions in the state (the others are the University of South Carolina and the Medical University of South Carolina). “Higher education doesn’t have a strong voice like other constituencies—senior citizens or public schools or crime. Politicians can’t get elected on higher education.”

In the 1995-96 academic year, South Carolina local and state expenditures per full-time equivalent student in four-year institutions were \$4,613—about \$250 less than the average for the 15 states belonging to the Southern Regional Education Board, according to an SREB report.

“The basic problem here is that higher education

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State Senator Nikki Setzler pushed the performance plan through the South Carolina Legislature.

is drastically underfunded,” said a college president who asked not to be identified. “No amount of ‘performance indicators’ or any of that other stuff is going to change that.”

Or, as Mary Thornly, president of Trident Technical College in Charleston, put it, “there’s a strong interest in South Carolina in rolling back taxes of every sort.” In that kind of climate, she said, more “accountability” is

unlikely to earn large increases in spending for public higher education.

Nevertheless, because “this is the law”—as one college administrator after another referred to it in interviews—a massive data collection and reporting process is under way throughout the state.

For the 1997-98 academic year, the plan’s first year, 14 of the 37 indicators were used to judge the performance of each public college and university. Next year, eight more will be added, and in the third and final year of the phase-in period, all 37 will be in play.

Some indicators have several parts. If all of the parts of all of the indicators are used to judge all of the campuses, measurements could total in the thousands.

Each campus establishes a “benchmark” for each indicator. This year, the benchmarks have little meaning because they are based on past performance. To some extent, that will be true for the second year as well. Beginning in the 1999-2000 academic year, however, each school must demonstrate that its benchmarks have been met or exceeded in order to earn a high rating from the Commission on Higher Education, which administers the entire unwieldy process.

Once a year, the commission assigns ratings of one to six for each indicator at each institution and then issues a single-sheet “report card.”

This year, for example, Clemson received a 6 for holding down “overhead costs per FTE student” but only a 4 for “average class size.” The university’s total score was 92 percent, tenth highest in the state.

The highest score—101 percent—was recorded, surprisingly, by the University of South Carolina’s branch campus in Lancaster, a lower-division (freshman-sophomore) school with about 1,200 students and a modest academic reputation.

South Carolina’s 37 Steps

THE NEW SOUTH CAROLINA budgeting plan appropriates money to public colleges and universities according to 37 “performance indicators”:

- Expenditure of funds to achieve institutional mission
- Curricula offered to achieve mission
- Approval of a mission statement
- Adoption of a strategic plan to support the mission statement
- Attainment of goals of the strategic plan
- Academic and other credentials of professors and instructors
- Performance review system for faculty, to include student and peer evaluations
- Post-tenure review for tenured faculty
- Compensation of faculty
- Availability of faculty to students outside the classroom
- Community or public service activities of faculty for which no extra compensation is paid
- Class sizes and student-teacher ratios
- Number of credit hours taught by faculty
- Ratio of full-time faculty compared to other full-time employees
- Accreditation of degree-granting programs
- Institutional emphasis on quality teacher education and reform
- Sharing and use of technology, programs, equipment, supplies and source matter experts within the institution, with other institutions and with the business community
- Percentage of administrative costs compared with academic costs
- Use of best management practices
- Elimination of unjustified duplication and waste in administrative and academic programs
- Amount of general overhead costs
- SAT and ACT scores of student body
- High school standing, grade-point averages and activities of student body
- Postsecondary non-academic achievement of student body
- Priority on enrolling in-state students
- Graduation rate
- Employment rate for graduates
- Employer feedback on graduates who were employed or not employed
- Scores of graduates on post-graduate professional, graduate or employment-related examinations and certification tests
- Number of graduates who continue their education
- Credit hours earned by graduates
- Transferability of credits to and from the institution
- Continuing education programs for graduates and others
- Accessibility to the institution for all citizens of the state
- Financial support for reform in teacher education
- Amount of public and private sector grants
- Number of “distance education” credit hours

After studying these scores, Fred R. Sheheen, the state’s former commissioner of higher education, wrote, “No other method of which I am aware would render such results, including the ancient practice of spilling the entrails of goats on the ground and reading messages from the patterns formed thereby.”

South Carolina Statistics

(Fall 1996)

- Number of public campuses: 33 (three research universities, nine four-year comprehensive universities, five two-year regional colleges, 16 technical colleges)
- Enrollment: 157, 363 (headcount)
- Students: 73 percent white, 27 percent minority (mostly African American)
- Operating budget: \$642,407 (1996–97 academic year—14.7 percent of total state revenue)
- Tuition and fees: average for four-year universities \$3,133, for two-year regional colleges \$1,850, for technical colleges \$975

(Source: South Carolina Commission on Higher Education)

“I was just as surprised as anyone else,” said Deborah Cureton, dean of academic and student affairs at Lancaster. “I guess we just looked particularly good on some of those first 14 indicators.”

Michael Smith, who is coordinating the new plan for the higher education commission, warned that the first-year scores don’t mean much because only a limited number of indicators were used, the benchmarks were based on past performance instead of future goals, and there was insufficient planning time.

“We’re feeling our way,” Smith said. “We’re looking for answers. We won’t know what works and what doesn’t until we have all 37 indicators in place and we’ve been using the whole system for a couple of years.”

But critics wonder if the scheme will ever make sense. They believe large amounts of meaningless information are being compiled that, in the end, will make little difference in state financial support.

Some indicators, or “critical success factors,” are puzzling.

For instance, one tries to measure “institutional emphasis on quality teacher education and reform” when the state’s 21 two-year colleges do not train teachers.

Act 359 calls for the Commission on Higher Education to apply “objective, measurable criteria” in judging a school’s performance, but for some indicators no such criteria exist. For instance, one indicator is: “Curricula offered to achieve mission.” For a given school, any judgment about that would be, as Fred Sheheen has written, “subjective” and “largely in the eyes of the beholder.”

Most campus officials who were interviewed agreed that some of the indicators are valid measures that can be quantified, at least to some degree: Does the institution have a strategic plan? How do faculty salaries compare with those of rival institutions, both inside and outside South Carolina? How much of the total budget is spent on administration? Is there a post-tenure review policy for tenured faculty members? How many degree-granting programs have been accredited?

But other measurements appear to be trivial or meaningless—for example, one requiring institutions to report on the “non-academic achievements” of their students when they were in high school.

Still others are contradictory. One indicator rewards an institution whose students enter with high SAT or ACT scores, while another gives high marks for enrolling in-state students, many of whom have low test scores.

South Carolina State University, the only historically black school in the state, made the mistake of taking the test

score indicator seriously, increasing the SAT score required for entrance last fall. The result was a 25 percent drop in freshman enrollment, causing a revenue loss of more than \$500,000 that the state will not reimburse.

“We have always done a very good job of retaining the students who enroll here, including those with low test scores,” said Leroy Davis, South Carolina State’s president. “I should think that would be a more significant indicator of quality than entering test scores.”

Another indicator calls on campuses to gather “employer feedback on graduates who were employed or not employed,” a measure that Susan Pauly, director of planning at the University of South Carolina at Lancaster, called “ludicrous—employers aren’t going to take the time to do that, and, if they answer honestly, they might be opening themselves to law suits.”

Class size seemed at first to be an appropriate quality measure but problems developed immediately. How can an introductory course in political science or psychology, almost always a large lecture, be compared with the one-on-one instruction required in some programs at the Medical University of South Carolina?

Commission staffers first decided not to apply this indicator to the medical campus. Then they limited the evaluation to freshman and sophomore classes. Campus officials doubt that the eviscerated indicator has much meaning.

In order to generate more money for faculty salaries and other high priorities, Coastal Carolina University had increased its student-faculty ratio gradually from 19-to-one to 25-to-one. “This was cost-effective and we were convinced quality did not suffer,” said Sally Horner, the campus executive vice president. “But we got a low rating (3.5) on that indicator.”

Some of the people who are working on implementation

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of Act 359 understand that some indicators need to be modified and others should be tossed out altogether.

Changes have been made already, such as limiting the class size measure to the lower division. Other modifications are coming.

Work is being concentrated on indicators that seem practical, while others are being silently ignored.

“We’ve found, as we work through this, we tend to find problems that were not apparent until our work began,” Dalton Floyd, who chairs the higher education commission’s planning and assessment committee, said diplomatically.

Floyd, a 59-year-old attorney from Surfside Beach who specializes in golf law, is given credit for bringing calm and

reason to the implementation process since taking over the planning committee a few months ago.

However, every formal attempt to reduce the number of indicators or make other substantive changes has been given short shrift by Senator Setzler and other supporters of the plan.

When a committee from the three research institutions suggested that 15 of the indicators should be dropped as largely irrelevant, they were rebuffed.

“Some people want to drop some measures,” Austin Gilbert said. “But I tell them, ‘No, it’s like the knob on your radio—if it’s not right, you adjust it but you don’t remove it altogether.’”

Setzler believes the implementation problems have been exaggerated.

When questions arose last year, “we sat everybody around the table (and) we learned that there really wasn’t the disagreement they thought there was, and everybody was on

the same song sheet,” Setzler said in an interview. “Certainly, I think any postponement of implementation would be an effort to either dilute or kill the legislation, and I certainly would not support that.”

“I think we need to work with this awhile before we make any significant changes,” Dalton Floyd said. “I don’t think the legislature would look in a friendly way at any major changes at this stage.”

Now that Setzler, Floyd and others are being invited to talk about the South Carolina budget plan at national higher education meetings, it will be even harder to make needed changes, some campus officials fear.

Said one, “Senator Setzler is getting praise for this, and now his ego is so big, he doesn’t want to hear about any

Gathering the massive amount of data required for the performance review process has been especially burdensome for smaller campuses.

UPDATE

Interest in Performance-Based Budgeting Has Faded

March 2008

TEN YEARS AFTER adopting a detailed performance-based budgeting plan for higher education, South Carolina essentially has abandoned the effort.

“We still collect performance-based data but we do not use it for budgeting,” said Julie Carullo, director of government affairs for the South Carolina Commission on Higher Education.

“The state has backed off from performance-based funding, in the face of prodigious budget cuts,” said Debra Jackson, vice provost and assistant to the president at Clemson, one of the state’s three research universities.

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—Debra Jackson, vice provost at Clemson University

The plan established performance indicators for South Carolina’s 33 public campuses. (The original 37 indicators swelled to more than 70.) Those that met or exceeded the criteria were to receive additional state funding; those that failed to meet the standards were to be punished financially.

“Those institutions receiving the highest scores were to receive extra money,”

Jackson said, “but that never happened, there was no extra money.” Instead, state appropriations for public higher education were reduced by more than 25 percent from 2002 to 2005.

There were other problems with the performance-based funding approach.

“You have to take money away from one school and give it to another, something that is politically very difficult,” said one education official. “How do you improve a low-performing school by cutting the

budget? How is that supposed to work? You wind up with a school that is worse off than before.”

Thomas Higerd, associate provost at the Medical University of South Carolina, said the state higher education commission, which was charged with implementing the plan, took a “one size fits all” approach.

“They treated all institutions the same, from a rural two-year school to the medical university,” Higerd said. “But we all had different missions. They didn’t take into account local situations. Lumping us together didn’t make any sense.”

There were conflicts between the state higher education commission, which implemented the plan, and administrators at many of the state’s 33 public campuses.

“There was a considerable gap between the institutional culture of academe and the values of government bureaucrats,” top officials of Clemson, the University of South Carolina and the Medical University of South Carolina wrote in a 2004 paper published by the National Association of College and University Business Officers.

The South Carolina Commission on Higher Education still collects performance data but no longer uses it to determine campus budget recommendations. Although the commission’s publications and website continue to say that performance funding is state policy, there is little evidence that this is so.

A decade ago there was a flurry of interest in performance-based budgeting around the country, but it has faded, experts say, because the programs were underfunded, they were the first thing dropped when budgets became tight, and they were poorly administered.

—William Trombley

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defects” in the plan.

So the expensive, time-consuming process continues.

“This is costing the state a fortune,” said Marcia G. Welsh, associate provost and dean of the graduate school at the University of South Carolina’s main campus in Columbia. “We have a number of people who are dedicating a significant part of each day to this, and when all the numbers fall out, what are they going to mean?”

“It’s really frustrating,” she continued. “Higher education is in such tough shape in this state, the situation is growing more and more desperate, and we’re spending all this time and effort on this exercise.”

The legislature did not appropriate any additional money for performance-based budgeting, so the institutions are absorbing the costs. University of South Carolina officials estimate they have spent at least \$150,000 on start-up costs alone.

Clemson’s David Fleming said he has put 62,000 miles on his Mercedes in the last two years, most of it traveling from the Clemson campus, in the western part of the state, to meetings at the state capital in Columbia.

Gathering the massive amount of data required for the performance review process has been especially burdensome for smaller campuses.

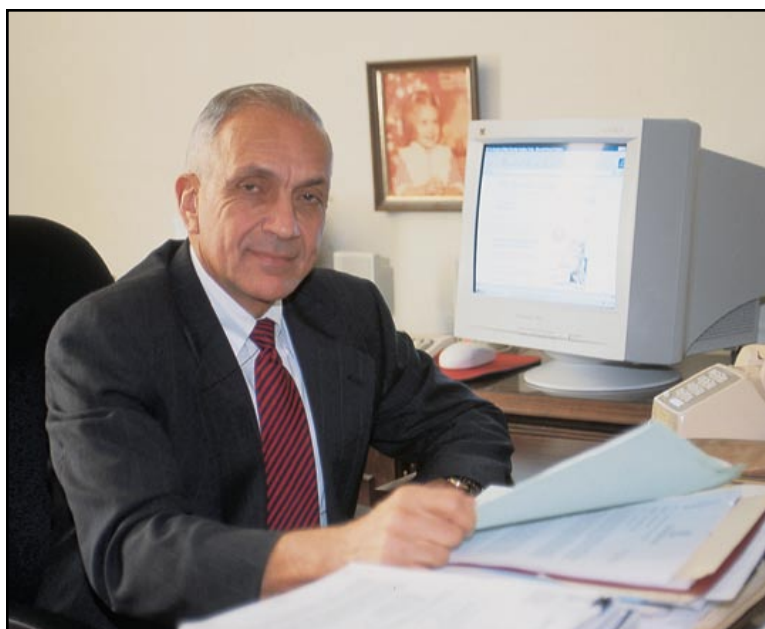
Thomas Hallman, associate chancellor at the University of South Carolina’s 3,000-student branch campus in Aiken, said a successful student assessment program has been “significantly reduced” because campus administrators are spending so much time on the new budget plan.

But Joseph C. Burke, who has been studying performance budgeting at the Rockefeller Institute of Government, is not sympathetic to these complaints.

“Shouldn’t they have been gathering much of this information already?” Burke asked. “If some people in higher education had their way, nothing new would ever get started because you can always think of more criticisms than reasons to do it.”

Several administrators agreed that the plan has forced them to analyze their campuses more carefully and to do better planning.

At Coastal Carolina University, for instance, seven task forces, including about 50 faculty members, have been involved in fashioning campus responses to the higher education commission’s requests. “I think we all know a lot more about the institution than when we started on this,” Executive Vice President Sally Horner said.



Former Higher Education Commissioner Fred R. Sheheen doubts South Carolina’s performance plan will work.

“We feel, with hard work and good sense, it will become a useful exercise,” said Conrad Festa, provost at the College of Charleston, a handsome liberal arts campus in the heart of Charleston’s historic district. “It forces us to hook together planning, budget and assessment in ways we haven’t done before.”

But Jack Parson, who has taught political science and international relations at the college since 1980, is less optimistic.

“The best we can hope for,” Parson said, “is to be able to go back to the public and the legislature and say, ‘Here are the indicators, we seem to be doing pretty well and, now that you have the evidence, it’s time to appropriate more money for higher education.’”

“This may enable higher education to regain some of the credibility it has lost, not only in South Carolina but nationwide,” Sally Horner said. “But do I think it will affect, in the near future, what goes on in the learning experience of a single student in this state? No, I don’t think so.” ♦

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**—Marcia G. Welsh,
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