RECOMMENDATIONS FOR PERFORMANCE BUDGETING IN THE UTAH SYSTEM OF HIGHER EDUCATION

Introduction

The purpose of this report is to describe for the Executive Appropriation Committee proceedings of the Utah System of Higher Education (USHE) interim task force on Performance and Accountability. The report also presents alternative mechanisms for linking performance assessment and accountability to funding, as well as identifying common types of performance measures used in other states.

In October 1997, the Legislative Fiscal Analysts reported to the Executive Appropriation Committee on how performance-based funding may be incorporated into the budgeting process of the Utah System of Higher Education. The Executive Appropriations Committee directed the Regents to identify measurable key performance indicators that could be tied to funding. The Regents subsequently organized a master planning task force whose assignment, among others, was to develop such indicators. The taskforce had broad representation from the Regents, the Commissioner's Office, USHE institutions, and the Legislature. The Legislative Fiscal Analyst's Office and the Governor's Office were also involved. In the fall of 1998, and during the 1999 Legislative General Session, a report was delivered by the Regents to the Executive Appropriations Committee and to Legislative leadership.

During the 1999 General Legislative Session, the Legislature increased the non-compensation base funding of USHE by $1,500,000 ($500,000 is one-time) to enhance the instructional budgets of each institution. The allocation of these funds was based on an appropriation of approximately $17.70 per FTE student enrolled. The total FTE students for academic year 1997-98 was 84,735. The appropriation of these funds for FY 2000 did not include any reporting requirements on the utilization for these funds. However, the Legislature did approved the following intent language recommending that key performance indicators be adopted to determine the criteria for allocating **productivity funds** to the nine institutions of higher education:

Productivity Funding Intent Language

The Council of Presidents and a representative of the Board of Regents working in conjunction with the Legislative Fiscal Analyst and a representative of the Governor's Office, shall recommend key performance

indicators that will be used to determine the criteria for allocating productivity funds to the nine institutions of higher education. These performance indicators shall be used to report on the quality of instruction, enhanced productivity and efficiency. The allocation of funds will be based on each institution's demonstration of improved quality of instruction, and enhanced productivity and efficiency. The Board of Regents and the Council of Presidents shall report to the Higher Education Appropriations Subcommittee and Executive Appropriations Committee by December 1 on how the funds were spent and the benefits derived from those funds. (Simplified)

Purposes of Performance Reporting

Since the 1980s, there has been growing national interest in making higher education more accountable to the public for the resources it uses and the results it achieves. Government leaders have been seeking information about student and institutional performance to help them make tough choices about the uses of public funds. Similarly, students and their families -- facing rising tuition, increased educational debt and uncertain labor markets -- have been seeking information to help them make difficult decisions about where to go to college and what to study.

Traditionally, states have funded higher education based on incremental increases in the base budgets and student enrollments. However, traditional funding overlooked critical outputs and outcomes, such as graduation rates, transfer rates, student retention, passage rates on exit exams, post graduate placement, placement in the workforce and faculty workload. As the needs of funding higher education have increased, more states are linking funding to performance-based funding mechanisms. This new approach ties funding to institutional results based on priority indicators that reflect the needs of students. It shifts the budget question from "what states should do for their campuses towards what campuses should do for their states."

Reasons for Reporting Performance Measures

There are nine common purposes for higher education performance reporting in the states (Ruppert, 1995; Epper, 1994). They include:

1. Increasing legislative and public support for higher education;
2. Helping to allocate public funds (through incentive- or performance based funding);

3. Monitoring the general condition of higher education;
4. Identifying potential sources of problems or areas for improvement;
5. Improving the effectiveness and efficiency of colleges and universities;
6. Focusing college and university efforts on state policy goals;
7. Assessing progress on state priorities and goals;
8. Improving undergraduate education; and
9. Improving consumer information on higher education institutions.

Common Performance Indicators

Literally hundreds of different performance indicators are in use in higher education throughout the United states and in western Europe . In a recent study of eight states using performance indicators, the following were found to be the most common (Ruppert, 1995). Appendix A has a more complete listing of performance indicators.

1. Regular admissions standards and comparisons of entering students to those standards;
2. Remediation activities and indicators of remedial effectiveness;
3. Enrollment, retention and graduation data by gender, ethnicity and program;
4. Total student credit hours produced by institution and discipline;
5. Transfer rates to and from two-year and four-year colleges;
6. Total degrees awarded by institution and program and time to degree;
7. Pass rates on professional licensure exams;
8. Placement data on graduates;
9. Results of follow-up satisfaction studies of alumni, students, parents, and employers;
10. Faculty workload and productivity data;
11. Number and percentage of accredited and eligible programs; and
12. External or sponsored research funds.

State Policy Goals

Performance indicators tend to cluster around broad state policy goals. Five common clusters and sample indicators are shown below:

Educational Quality and Effectiveness	This category emphasizes undergraduate teaching and learning. Example indicators are ACT and SAT scores of entering freshmen, number of freshmen meeting state admissions standards, number of students in remediation, effectiveness of remedial instruction, availability of academic programs, amount of financial commitment to instruction, student-faculty ratios, class size, percent of students taking at least one course with fewer than 15 students, student assessment results, student performance on nationally-normed exams, type of faculty teaching lower-division courses, time to degree completion, course demand analysis, graduation rates, performance of graduates on licensure exams, job placement rates, graduate and employer satisfaction, number of degrees awarded by discipline, and number of degrees granted.
Access-Diversity-Equity	This category is related to changing demographics and the changing needs of the student population. Examples of indicators are persistence and graduation rates by ethnicity, availability of financial aid, faculty diversity, college participation rates, progress in affirmative action, and student demographics.
Efficiency and Productivity	This category refers to how well and at what cost particular goals or priorities are met. Examples include program costs, time to degree and number of credits by institution and degree, classroom and laboratory utilization, charges to students, state appropriations per capita and per resident student, total contact hours of instruction by faculty rank, facilities maintenance, average faculty salary, and student-faculty ratios.
Contribution to State Needs	This category deals with concerns about workforce development and economic competitiveness issues. Examples include relation of programs to employer needs, number of graduates in critical employment fields, economic impact on the state, continuing education patterns, and employer ratings of "responsiveness."
Connection and Contribution to Other Education Sectors	This area is concerned with the educational system as a whole. Examples of indicators in use include: effectiveness of remedial education, feedback on performance to high schools, and research and service in support of public education (K-12).
Linking Funding to Performance Indicators	States have long provided funding to encourage a desired result, but with this paradigm shift, the performance-based funding provides funding based on achievement, “rather than promised results.” Based on a report for the 1996-97 academic year, approximately 38 states are

currently using some form of key performance indicators. An additional six states are planning to implement performance measures in the near future. Of the 38 states using performance measures, 22 are using performance measures in the budgetary process. For most states, performance measures are indirectly linked to the budget, however, eight states provide for a direct link with funds allocated to institutional performance based on goals and key performance measures. Several states, such as Virginia and Oregon since the 1996-97 report, have also come on board with directly linking their budgetary process to performance indicators.

States that Link Performance to Funding

A summary of states that directly links performance measures to the budget as of academic year 1996-97 are shown in the following table:

State/Sectors	Legislative Mandate	Year Implemented	FY 97 $	% of the Budget
Tennessee (2- and 4- Year)	No	FY 81	$25 M	4%
Colorado (2- and 4- Year)	Yes	FY 94	$6.2 M	2%
Missouri (2- and 4- Year)	No	FY 94 (4-Yr); FY 95 (2-Yr)	$10.7M	2%
Arkansas (2- and 4- Year)	No	FY 95	$9M	2%
Ohio (2-Year)	Yes	FY 96	$3M	1%
Florida (2- Year)	Approp Bill	FY 97	$12M	1%
Kentucky (2- and 4- Year)	Language in Appror Bill	FY 97	$3M	0.5%
South Carolina (2- and 4- Year)	Yes	FY 98		Mandates 100% by FY 2000

Budget-related Indicators adopted by USHE

In the 1998 report to the Legislature, the Regents affirmed its commitment to utilize performance as a basis of allocating funds within the Utah System of Higher Education (USHE) as well as committed to provide potential performance-based funding measures for legislative consideration. The report also identified several performance indicators that are appropriate for improving the USHE which could be meaningfully tied to funding. These indicators include:

Instruction Quality

- ***Instructional Quality and Student Learning -Increase in the number and proportion of students who pass norm-referenced licensure and other examinations with higher scores than the average score currently earned by USHE students***. This measure will provide one important indicator of the quality of instruction at USHE institutions. The test scores of students who take norm-referenced licensure exams and other norm-referenced examinations

are perhaps the most readily available measures of quality of their educational experience. Standardized testing at USHE institutions occurs in specific degree programs, especially in applied technology, science, and health fields. Students in many applied technology fields, such as nursing, welding, and automotive technology must successfully pass certification examinations. In addition, students who intend to pursue advanced graduate or professional degrees are likely to be required to complete norm-referenced examinations that provide strong evidence of the quality of their baccalaureate preparation. Examples are the Graduate Records Examination (GRE), Law School Aptitude Test (LSAT), and the Medical College Aptitude Test (MCAT). It should be noted that $100,000 was appropriated for a pilot program to administer the Collegiate Assessment of Academic Proficiency (CAAP) to measure instructional quality and student learning. The CAAP test is administered at the end of the sophomore level of college to assess the effectiveness of the institutions general education programs, as well as assess academic achievement of a student for upper level course work.

Graduation Efficiency

- ***Graduation Efficiency - Average credits to graduation divided by total credits required.*** This measure will tell how many extra credits the average student takes to graduate. By encouraging institutions to reduce this value over time, policy-makers foster positive institutional change by reviewing the length of programs, strengthening student advising, eliminating bottle-neck courses, and other steps to reduce the number of credits students take to graduate.

Transfer Rate

- ***Transfer Efficiency - Average credits to graduation for transfer students divided by average credits to graduation for native students (e.g. students who remain at one school).*** This calculation would be made for schools from which students transfer and also for schools to which students transfer. Making an improvement in this area requires a cooperative effort among institutions. Positive institutional improvements that may be fostered by this indicator include strengthening student advising, improving transferability of courses and programs among institutions, expanding student outreach programs, improving the clarity of catalogs, and implementing online computer programs to show students how their courses will transfer to a particular institution.

Faculty Workload

- ***Faculty Workload - Average weekly teaching contact hours per full-time faculty divided by Regent-approved standard weekly teaching contact hour load.*** Assuring efficiency and effective allocation of faculty resources is a goal that all USHE institutions share. One way to pursue this goal is to encourage optimum contact between students and full-time faculty in instructional settings. A standard weekly teaching contact hour load was established by the Regents for each institution within the USHE. Institutional averages would be compared against the standard loads. Positive institutional improvements that may be fostered by this indicator include an increased reliance on full-time faculty for instructional purposes, and continued improvement in undergraduate education.

In addition to establishing systemwide performance indicators, each institution was directed to submit additional indicators that would be specific to their particular role and mission or institutional need. The institutional indicators are reported in the Appendix C following this report**.**

Concerns about Linking Performance Funding

There is no denying that institutions should be more effective and held accountable for their efforts, however there are certain problems associated with performance based funding that need to be reviewed. It is evident, by its interest in performance based funding, that the Legislature would like higher education to state its goals and activities more explicitly and report results as a form of accountability. The implementation of performance measures across the system of higher education should give consideration to:

Data Collection

The cost impact of complex data collection and reporting.

Interpreting Results

The results of some performance measures may be difficult to interpret. Consider the goal of identifying employer satisfaction. What do employers want? Some want students with basic skills; others want graduates with "higher order thinking skills." Some want team players with people skills; others want technical competence. And if we find out, how would a state link such findings to graduates, institutions, and programs? We might discover general satisfaction or dissatisfaction, but most performance-funding models and accountability schemes require quantifying results to factor into the funding model.

External Influences on Results

Performance measures should be designed to account for how a particular result was achieved. Measurements such as high graduation or pass rates reveal little about how such feats are achieved. The answers to "how" questions are far more relevant to implementing effective strategies for change. Ultimately, they need to reflect many issues that impact the results such as: external influences on the student, campus advising and leadership, curriculum sequencing , and organizational processes.

Benchmarks

Setting Benchmarks. Where should the benchmark be set — at a point most institutions already have achieved (the institutional preference) or some higher goal? Should national and regional comparison data be the centerpiece bench marks in evaluating the adequacy and appropriateness of existing USHE base budgets?

May Promote Wrong Behavior

Performance measures may distort institutional behavior. Extraordinary emphasis on a specific level of performance could contribute to distorting results to qualify for funding bonuses. In choosing performance measures, we need to bear in mind that the objective is to foster a commitment to improve the quality and efficiency of our higher education institutions, and not to focus on explicit financial rewards.

Complexity not Desirable

Simplicity of the funding mechanism. The accountability system may be so complex that it collapses under its own weight. This happened in the 1970s with zero base budgeting, and may well happen to an extremely complex performance funding model. In Colorado, an elaborate performance-based certification process for teachers recently was repealed because it took too much staff power and delivered too few benefits. When Utah's system is devised, it should not require enormous and expensive data-collection efforts that yield small returns.

Despite these limitations, thoughtfully devised performance and accountability measures can be useful. At the very least, they enable state policymakers to insist that campuses enrich our teaching and learning enterprise. **It is important to note that performance funding is not a cure-all for creating an accountable higher education system. State and institutional leaders need to collaborate on devising a broad, powerful agenda for change**. Several other issues also deserve attention. Among them are the balance between institutional support and need-based financial-aid programs, best practice program reviews, role and mission funding,

and reallocation incentives. All potentially lead to more powerful and long-lasting changes through performance funding.

Performance Funding Models

In our review of those states that use performance measures in their budgeting process, 8 states directly link performance to institutional funding. These include: Arkansas, Colorado, Florida, Kentucky, Missouri, Ohio, South Carolina and Tennessee. The methodology for determining the amount of funds for distribution for exemplary performance include:

Determining Size of Performance Bonus

- Value based on budgeted increase for non-personnel service costs. This is the method used in Tennessee and provides approximately $29.4 million annually to the institutions. If the same method were used to calculate an amount of performance funds in Utah, USHE institutions would receive approximately $5.4 million collectively.
- Value based on direct cost of instruction only. A percentage factor is applied to the direct cost of instruction to determine the amount of performance funding.
- Value based on total number of students at each institution. USHE proposed a funding mechanism based on an appropriation of $30 per FTE student enrolled at each institution. Systemwide this would amount to approximately $2.5 million. The Legislature allocated $1.5 million for FY 2000 which is about $17.70 per FTE student.
- A set percentage of base budget. By year 2000, 100 percent of the higher education budget in South Carolina will be performance-based.

Tennessee Performance Funding Standards

The performance funding program in Tennessee dates back to the mid 1970's. Their program supplements regulars formula driven budgets by rewarding substantive improvements in academic programs and services which benefit students enrolled at their institutions. The program measures each institution on a set of quantitative out-come based standards. It has resulted in:

Tennessee Model

- Improvements in student's scores on national exit examinations of general education outcomes as well as major field test scores;
- Exceptionally high job placement rates for two-year institutions.
- Assessment based improvements have fostered more comprehensive and responsive college planning.

- Monitors academic program effectiveness
- Provides feedback on student and alumni satisfaction with the institutions academic programs and services.

$250 million in Additional Funding since 1979

Under the performance funding program, institutions can earn up to 5.45 percent in new money over their appropriated non-personal services portion of their operating budget. The incentive funding is used to improve the quality of the institutions programs and services. The program is reviewed every five years to determine needed modification or change. Since 1979, over $250 million have been earned by institutions.

Based on adopted standards, each institution may receive up to 100 points according to the following Table:

Four Areas of Emphasis

Standards Summary

	University	2-Year
Standard 1 - Academic Performance: General Education		
1.A. Foundation Testing of General Education Outcomes	15	15
1.B. Pilot Evaluation of Other General Education Outcomes	10	10
Standard 2 - Academic Performance: Major Fields		
2.A. Accreditation of Academic Programs	15	10
2.B. Program Review	20	10
2.C. Major Field Assessment	15	15
Standard 3 - Student Success and Satisfaction		
3.A. Enrolled Student/Alumni Survey	10	10
3.B. Retention/Persistence	5	5
3.C. Job Placement (2-year institutions only)		15
Standard 4 - State and Institutional Initiatives		
4.A. Institutional Strategic Plan Goals	5	5
4.B. State Strategic Plan Goals	5	5
Total Points	100	100

A sample of how an institution might earn up to 5 percentage points for meeting their institutional strategic plan is included on the following table.

Institutional Strategic Goals	**Standard 4A** **Institutional Strategic Plan Goals**
Purpose	Designed to provide incentives for institutions to improve the quality of their academic programs by evaluating progress toward specific goals contained in their institutional strategic plan.
Points	Up to 5 points may be earned for success on this standard.
Evaluation	Measurable objectives related to the institution's strategic plans will be developed and benchmarks set for each year of the cycle. Progress will be reported each year.
Process	Institutions will choose a minimum of 4 and a maximum of 7 specific goals derived from their institutional strategic plan. These goals must be stated in quantifiable terms and measurable benchmarks for each year of the cycle. Baseline values must be established prior to the beginning of the cycle. ▸ Goals base on raw numbers (e.g., enrollment goals) should be converted to percentages. ▸ Goals which involve percentage change from one year to the next should have a clear statement of the overall change expected over the five year cycle. ▸ Goals must be submitted on the approved goal submission form and must be approved by both governing board and Commission staff prior to the beginning of the cycle. The section of the institutional strategic plan that each goal is being derived from must be referenced and documented on the goal submission form when submitting goals to the governing board and Commission staff. ▸ Revision of goals and benchmarks will be allowed only in the 3rd year of the cycle. Reasons must be based on factors outside institutional control in order to be considered for revision. Revisions must be approved by the governing board and Commission staff. ▸ Weighting of goals is allowed. However, weighting must be the same value for a given goal throughout the cycle. Weights must be expressed as a whole percentage and all weighting values must sum to 100percent. The only allowable change in weighting can

occurring the 3rd year of the cycle. Any changes requested in the third year of this cycle must be on the approved goal submission form and approved by the governing board and Commission staff.

Scoring

Progress toward goals will be evaluated by comparing the benchmark for given cycle year with the attainment in that year. This will be accomplished by dividing the goal's attainment value by its benchmark value for the cycle year (no percent attainment may exceed 100 percent). The resulting percent attainment will be averaged across all goals in the standard to obtain an overall percent attainment. Any weighting of goals will be applied while averaging these values to obtain the weighted average. This overall percentage will be rounded to the nearest whole percentage and compared to the table below to award points on this standard.

Goal Attainment	Below 80%	80% to 84%	85% to 89%	90% to 94%	95% to 98%	99% to 100%
Points	0	1	2	3	4	5

TENNESSEE
APPROPRIATION FOR PERFORMANCE FUNDING CALCULATIONS
FY 1998-99

	Recommended Perform Funding Appropriation (Appropriation Minus Compensation)	Total Incentive Funds (5.40% Adj.)	Scores	Net Performance Dollars
Universities:				
Austin Peay	$22,734,000	$1,227,600	0.92	$1,129,400
East Tennessee	38,035,000	2,053,900	0.94	1,930,700
Middle Tennessee	59,523,000	3,214,200	0.97	3,117,800
Tennessee State	28,845,000	1,557,600	0.92	1,433,000
Tennessee Tech	32,417,000	1,750,500	0.95	1,663,000
University of Memphis	77,635,000	4,192,300	0.88	3,689,200
subtotal	$259,189,000	$13,996,100		$12,963,100
Community Colleges:				
Chattanooga	$16,548,000	$893,600	0.94	$840,000
Cleveland	7,270,000	392,600	0.97	380,800
Columbia	8,668,000	468,100	0.99	463,400
Dyersburg	4,602,000	248,500	0.96	238,600
Jackson	7,633,000	412,200	0.86	354,500
Motlow	6,427,000	347,100	0.96	333,200
Nashville State Tech	9,344,000	504,600	0.92	464,200
Northeast	7,359,000	397,400	0.98	389,500
Pellissippi	13,911,000	751,200	0.98	736,200
Roane	12,036,000	649,900	0.92	597,900
Shelby	13,423,000	724,800	0.72	521,900
State Tech Memphis	15,711,000	848,400	1.00	848,400
Volunteer	12,222,000	660,000	0.94	620,400
Walters	12,510,000	675,500	0.93	628,200
subtotal	$147,664,000	$7,973,900		$7,417,200
Technical Colleges:				
UT Chattanooga	$28,652,000	$1,547,200	0.96	$1,485,300
UT Knoxville	122,682,000	6,624,800	0.98	6,492,300
UT Martin	20,865,000	1,126,700	0.96	1,081,600
subtotal	$172,199,000	$9,298,700		$9,059,200
Total Academic Formula	$579,052,000	$31,268,700		$29,439,500

Virginia's Funding Model

The Commonwealth of Virginia Performance Funding Model

The Commonwealth of Virginia is currently working on developing performance measures for future use by the state's institutions of higher education. The components of the model include:

- The performance for each measure is based on the percentile rank of the institution relative to its national peers.
- All measures are weighted equally by institutional type. For example, doctoral institutions receive a weight of 16.67 percent and comprehensive institutions receive a weight of 20 percent.
- Monetary rewards are weighted by institutional size using the full-time equivalent students on campus.

Examples of definitions for core performance measures for Virginia's institutions of higher education:

Core Performance Measure

- Graduation Rate Measure - This measure reflects graduation rates based on six years. The baseline reflects only full-time, program place (matriculated), first -time students entering the Fall 1991 (graduating in 1997).
- Retention Rate - Number of students returning to campus (freshman to sophomore level).
- Transfer Rates - Measures the number of full and part-time students transferring from the community colleges to a four year college or university.
- Percentage of graduates employed in program related work or pursuing further education - Baseline is a percentage of graduates employed in their field of study or seeking further education based on results of alumni surveys.
- Teacher workload - Based on the number of undergraduate and graduate credits hours generated divided by the number of full-time equivalent faculty.
- Research and instructional expenditures divided by the number of full-time faculty.
- Space Utilization - measure the use of instructional classroom and lab space. Note that this measure is only evaluated with institutions in the state rather than with national peers.

Graduation Rate

Institution	Graduation Rate	Percent Rank	Weight	Measure Score
Applacachian State Univ.	64%			
Baylor University	70%			
Bradley University	68%			
Cal. State Univ. - Chico	55%			
Cal. State Univ. - Fresno	47%			
College of Charleston	54%			
Indiana Univ. of Penn.	61%			
James Madison Univ.	**82%**	**91.60%**	**20%**	**18.32%**
Middle Tenn. State Univ.	37%			
Ohio University	67%			
Providence College	91%			
Salisbury State Univ.	56%			
SUNY at Binghamton	81%			
SUNY at Brockport	50%			
SUNY at Oswego	60%			
Texas Christian Univ.	60%			
Towson State Univ.	59%			
University of Delaware	72%			
Univ. of North Dakota	47%			
Univ. of Northern Iowa	71%			
Univ. of Notre Dame	94%			
University of Oregon	58%			
Univ. of Rhode Island	63%			
Univ. of Tennessee	38%			
Western Washington Univ.	60%			

Institutional Example of calculating a Score for the Graduation Rate Performance Measure:

Once the measure score is calculated for each performance measure, the total performance score is calculated for each institution as outlined in the following table:

James Madison University's Total Performance Score

	Performance Measure	Score
Measure 1:	Graduation Rate	**18.32**
Measure 2:	Retention Rate	17.50
Measure 3:	Transfer Rate	N/A
Measure 4:	Employment/Graduate Level Rate	N/A
Measure 5:	Teacher Workload	10.82
Measure 6:	Cost of Instruction	18.32
Measure 7:	Space Utilization	18.56
Total Score		**83.52**

JMU's FTE's	9,737
Performance Score	83.52
JMU's Indexed Score	813,234

After the score is obtained, each institutions performance is multiplied by the number of students served on the campus. James Madison University's (JMU) full-time equivalent (FTE's) students for the 97-98 academic year was 9,737.

All institution's indexed scores are combined to calculate the allocation of performance funding for each institution as follows:

Indexed Scores of Comprehensive Institutions (20% Weight)

Institution	Indexed Score	Percentage of Total	Funding
Christopher Newport Univ.	191,365	9.38%	1,454,395
Clinch Valley College	56,202	2.76%	427,141
James Madison Univ.	**813,234**	**39.88%**	**6,180,665**
Longwood College	174,684	8.57%	1,327,617
Mary Washington College	131,636	6.45%	1,000,448
Norfolk State University	129,710	6.36%	985,810
Radford University	472,343	23.16%	3,589,857
Virginia Military Institute	23,267	1.14%	176,832
Virginia State University	47,004	2.30%	357,235
Total	2,039,445		$ 15,500,000

Florida's Funding Model

Beginning in the 1996-97 academic year, Florida past legislation encouraging performance-based budgeting for the community colleges and area technical schools. The funding measures are based on completion, graduation and transfer rates. The Legislature challenged the community colleges and technical centers to place five percent of their budgets in an incentive program that the Legislature would match with an additional $12 million. Only those institutions that added five percent of their budget to the incentive pool were eligible for the new program. The five percent, plus more, could be earned back by demonstrating success in meeting established standards for graduation, completion and transfer rates.

Recommendations

Recommendations and Conclusions

There is a growing interest in making higher education more accountable to the public for the resources it uses and the results it achieves. Traditionally, the Utah System of Higher Education has been funded on student enrollment growth plus funds for incremental increases in the base budgets. This funding approach overlooks critical outputs and outcomes, such as graduation rates, transfer rates, student retention, passage rates on exit exams, post graduate placement, placement in the workforce and faculty workload.

Link funding to Performance

It is the recommendation of the Legislative Fiscal Analyst that any unrestricted appropriation of funds for FY 2001 be linked to a performance-based funding mechanism. The funding allocation would be tied to institutional achievement on selected performance indicators adopted by the Utah System of Higher Education and approved by the Executive Appropriation Committee.

In anticipation of adopting performance-based funding for higher education, the Legislative Fiscal Analyst also recommends that the Executive Appropriation Committee:

- Review proposed USHE recommended systemwide and institutional specific performance indicators.
- Examine performance measures adopted by other states to determine whether these measures should be included with each institution's initial set of goals and performance indicators.
- Review various funding mechanisms adopted in other states to determine how an amount of money may be tied to performance for the institutions in the Utah System of Higher Education.
- Review the recommendations of the task force by October so that a performance and accountability funding mechanism may be included in the next budget cycle if adopted by the Executive Appropriations Committee.