

February 21, 2000

**MEMORANDUM**

**TO:** Presidents  
Business Officers  
Chief Academic Officers  
Planners  
Performance Funding Implementation Task Force  
System Office Staff

**FROM:** Brenda H. Rogers  
Vice President for Administration

**SUBJECT:** Recommendations from the Performance Funding Implementation Task Force approved by the State Board of Community Colleges

On February 18, 2000, the State Board of Community Colleges approved the recommendations from the Performance Funding Implementation Task Force. This report clarifies a number of issues relating to performance funding. The report is attached and is also available at [www.ncccs.cc.nc.us](http://www.ncccs.cc.nc.us) under "Plan/Account" along with the report on performance measures and standards. I hope that you will share the report, as well as the report on performance measures and standards, with your faculty and staff.

Please recognize that all 12 performance measures will be used for accountability purposes. The Accountability Monitoring Committee, chaired by Dr. Steve Scott, will be working with colleges to improve performance on all 12 measures. Data on the performance measures that is currently being collected will be published in this spring's Critical Success Factors report.

I appreciate the work of the Performance Funding Implementation Task Force and the input from our college personnel in the identification of issues and the development of recommendations. In some cases legislative action will be required, and we will keep you informed of the status of these requests.

c: President H. Martin Lancaster  
Dr. Stephen C. Scott

CC00-045  
E-Mail

# Report from the Performance Funding Implementation Task Force

SBCC Approved February 18, 2000

## Special Provision: Implementation of Performance Budgeting

This report is in response to Section 9.2 of S.L. 1999-237:

Section 9.2.(a) It is the intent of the General Assembly that the the [sic] State Board of Community Colleges implement the findings of the consultant's Phase IV Funding Study Report, prepared by the State Board and submitted to the Education Appropriations Subcommittee, on performance budgeting; therefore, Chapter 115D of the General Statutes is amended by adding a new section to read:

### **"§ 115D-31.3. Performance budgeting.**

(a) 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. The results of a survey may 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.

(b) Notwithstanding any other provision of law, the State Board shall authorize each institution meeting the new performance standards to carryforward 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. The funds carried forward shall be used for the purchase of equipment and initial program start-up costs excluding regular faculty salaries. 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.

(c) The five required performance measures are (i) progress of basic skills students, (ii) passing rate for licensure and certification examinations, (iii) goal completion of program completers, (iv) employment status of graduates, and (v) performance of students who transfer to the university system. Colleges may choose one other performance measure from the list contained in the State Board's Phase 4 Funding Formula Study, which was presented to the Joint Legislative Education Oversight Committee. Successful performance on each of the six performance measures shall allow a college to retain and carry forward up to one-third of one percent (1/3 of 1%) of its final fiscal year General Fund appropriations into the next fiscal year.

(d) Each college shall publish its performance on these six measures in its catalog each year beginning with the 2001 academic year."

Section 9.2.(b) The State Board of Community Colleges shall report to the Joint Legislative Education Oversight Committee and to the Fiscal Research Division prior to March 1, on an annual basis, on the implementation of this provision.

Section 9.2.(c) This section becomes effective July 1, 1999. The State Board of Community Colleges shall authorize institutions meeting the new performance standards to carry forward funds from the 2000-2001 fiscal year to the 2001-2002 fiscal year and at the end of subsequent fiscal years.

## **Background**

President Martin Lancaster appointed the Performance Funding Implementation Task Force to study the issues relating to the use of the State Board approved performance measures and standards for funding purposes. The task force was comprised of Kennon Briggs, Vice President for Business and Finance, and Brenda Rogers, Vice President for Administration, co-chairs; Steve Scott, Executive Vice President; David Heatherly, Coastal Carolina Community College; Willard Lewis, president of Isothermal Community College; Dennis King, Asheville-Buncombe Technical Community College; Marvin Joyner, president of Central Carolina Community College; Ed Wilson, president of Wayne Community College; and Susan Allred, Forsyth Technical Community College.

The special provision cited above required that the State Board of Community Colleges use the new accountability measures and performance standards for performance budgeting. The performance funding model was developed as a part of the MGT study conducted by the Legislative Issues Study Committee in 1998-1999. In 1998-99 the Performance Measures and Standards Task Force developed the new measures and standards that were adopted by the State Board in the spring of 1999. The Implementation Task Force was composed of individuals who served on one or both of these work groups and was charged with using the previous reports in developing an action plan for implementing the performance funding model in 2001.

## **Review of the Performance Measures and Standards**

The State Board of Community Colleges responded to the special provision in Senate Bill 1366, Section 10.5 by adopting twelve performance measures and standards. The special provision stated that "The General Assembly finds that the current annual program review standards are not adequate to ensure that programs are meeting the needs of students, employers, and the general public; therefore, the State Board of Community Colleges shall review the current standard to ensure a higher degree of program accountability and shall establish appropriate levels of performance for each measure based on sound methodological practices."

The task force report was presented to the State Board of Community Colleges, which approved its recommendations. The report was also presented to the Joint Education Appropriations Committee. The following are the task force recommendations:

- A. The proposed set of measures and standards for each measure will replace the existing annual program review and critical success factors standards.
- B. Standards will be applied at the institutional level, except for licensure/certification data for which each exam at each college must meet the standard.
- C. To ensure sound methodological practices as required in the special provision, the Department of Community Colleges will review data collection procedures and analysis for reliability and validity.
- D. Periodic evaluations of the standards will be conducted by the North Carolina Community College System and, based upon the evaluations, modifications to the standards will be recommended to the State Board of Community Colleges.

E. The following twelve performance measures will replace the Critical Success Factors and the Annual Program Review accountability measures:

1. Progress of basic skills students
2. Performance of college transfer students
3. Passing rates for licensure and certification examinations
4. Passing rates of students in developmental courses
5. Success rate of developmental students in subsequent college-level courses
- \*6. Program enrollment
7. Student satisfaction of program completers and non-completers
8. Goal completion of program completers
9. Curriculum student progress and success
10. Employer satisfaction with graduates
11. Employment status of graduates
12. Client satisfaction with customized training

\*Exclude for performance funding.

### **Requirements for Performance Funding**

The accountability measures and performance standards may use survey data only if the survey is statistically valid. The special provision authorizes the carry forward of a maximum of 2 percent of the total State aid budget, as defined as State dollars allocated to the 58 community colleges. The funds can only be used for the purchase of equipment and initial program start-up costs, excluding regular faculty salaries. The funds may **not** be used for continuing salary increases and other obligations beyond the fiscal year (continuing). Another restriction is that funds must be encumbered within twelve months of the fiscal year.

The special provision specified the following five required performance measures for use in performance funding:

- (1) progress of basic skills students
- (2) passing rate for licensure and certification examinations
- (3) goal completion of program completers
- (4) employment status of graduates
- (5) performance of students who transfer to the university system

The colleges may choose one other performance measure from approved list, excluding the enrollment measure that establishes minimum enrollment for a viable program. For each of the six performance measures, a college shall retain and carry forward one-third of 1 percent of final General Fund appropriation.

The special provision requires that each college publish its performance on the six measures in its catalog beginning with the 2001 academic year. Furthermore, the System Office is required to report annually, prior to March 1, to the Education Oversight Committee and the Legislative Fiscal Research Division.

This provision was effective July 1, 1999, and the performance funding is to be implemented in fiscal year 2001-2002, based upon data reported during 2000-2001. The accountability measures and performance standards are to be implemented July 1, 2000.

## Issues and Recommendations

At the first meeting the task force identified issues that needed study and clarification in order to implement the accountability measures and performance funding. At the two subsequent meetings the task force developed recommendations to address the issues. Each issue is described briefly, and recommendations are offered to address the issues.

- I. **Definition of superior performance.** The performance funding model has a two-tier approach that allows a college to carry-forward funds if the college meets the standard and if the college achieves “superior performance.” Superior performance was not defined; however, the consultant recommended that no more than one-fourth of the colleges should qualify for the second-round performance funding. Based upon an examination of existing data, the task force believes that less than one-quarter of the colleges will meet the standards for five of the six accountability measures.

**Recommendation 1: Superior performance is defined as meeting the standard on five of the six measures.**

- II. **Definition of significant improvement.** The consultant’s report proposed that “a significant improvement in performance over the prior year serve as an alternative way for a college to become eligible for performance funding. The criterion for demonstrating significant improvement will need to depend on the individual program measures and each college’s prior performance.” The task force studied the available data on the accountability measures and determined that colleges must have time to implement changes in programs before it is reasonable to expect improvements in performance measures. Therefore, for each measure, a time period is established for reaching the standard, and this time period is a factor used in determining whether significant improvement has been achieved. System Office staff recommended the time periods for each of the eleven measures. Attachment A provides the recommended time for reaching the standard for each of the eleven measures.

**Recommendation 2: For each of the eleven measures, a time will be established for meeting the standard. The operational definition of significant improvement on any measure is as follows: The difference between the college’s performance and the standard divided by the time established for meeting the standard.**

Example: If a college achieves 60 percent on the progress of basic skills students and the standard is 75 percent, the difference is 15. The established time for meeting the standard is three years. Therefore, the college must improve by 5 percent each year to show significant improvement. At the end of three years the college should meet the standard of 75 percent.

- III. **Distribution of carry-forward funds.** The consultant’s report recommended the carry forward of up to 2 percent of NCCCS’ final appropriation for the purpose of rewarding colleges that meet the performance standards and achieve superior performance. The distribution of the carry-forward funds for the first tier funding—meeting the standards on the six measures—is clearly described in the

language of the Special Provision. Each college can carry forward “an amount not to exceed two percent (2%) of the State funds allocated to the institution for that fiscal year.” The consultant’s report clearly designates that each of the six measures is worth one-third of the amount that the college could carry forward, not to exceed one-third of 1 percent for a total of 2 percent. What is somewhat ambiguous is how the second tier of funding is to be distributed. Since the first tier of funding will be based upon the total State budget, which is a function of size or FTE, then the task force believed that the second tier should be shared equally.

**Recommendation 3: All carry-forward funds not distributed in the first tier will be put into a pool and distributed equally among the colleges attaining superior performance.**

- IV. **Allowable uses of the carry-forward funds.** The Special Provision clearly specifies that the carry-forward funds cannot be used for regular faculty salaries or **continuing** salary increases or other obligations that extend beyond the fiscal year into which they were carried forward. What is not clear is whether faculty and staff bonuses—one-time payments—are permissible.

Another issue is the use of the funds for paying faculty salaries for one year only for the purpose of starting a new program. The funding formula for community colleges is based upon FTE enrollment earned in the preceding year(s). The first year of a new program has to be funded from FTE generated by other programs or from other sources of funds. The Special Provision designates the use of the funds for “initial program start-up” but excludes its use for “regular faculty salaries.” However, the major cost of starting most new programs is faculty salaries. If performance funding could be used for faculty salaries only for the initial year, the intent of the performance funding for supporting initial program start-up costs would be met. Colleges would have to use regular State funds after that initial start-up year to support faculty salaries.

**Recommendation 4: Carry-forward funds may be used for non-recurring purposes, including faculty and staff bonuses. It is recommended that the General Assembly allow colleges to use performance funding for faculty salaries for the first year of a program since the major cost of initial program start-up is faculty salaries.**

- V. **Declaration of the sixth measure.** Five of the accountability measures are defined in the Special Provision, and colleges can choose the sixth measure from the list contained in the State Board’s Phase 4 Funding Formula Study. How and when each college designates the sixth measure is not defined.

**Recommendation 5: Colleges must declare the sixth measure at the beginning of the fiscal year.** The System Office will request from the president of each college the identification of the sixth measure on or near July 1 of each fiscal year. The sixth measure can change from year to year.

- VI. **Program enrollment.** The Performance Measures and Standards Task Force recommended that the program enrollment accountability measure **not** be used for

performance funding. Program enrollment sets what is a minimum level of enrollment for a viable program and should be viewed as minimally acceptable performance for program continuation. Another issue related to program enrollment is whether a “program” is defined as a curriculum regardless of the level—degree, diploma, or certificate—or whether enrollment should be counted separately for each degree, diploma, and certificate. Faculty are hired to teach the discipline, regardless of the level, and students pursuing certificates, diplomas, and degrees are usually enrolled in the same first-year courses.

Another issue is the enrollment caps that are placed on some programs. If programs are limited to fewer than 10 students in a class, then the programs should be exempted from this requirement.

New programs often have low initial enrollment. However, the enrollment of 10 students is based on an average over a three-year period. The standard will not be applied until data are available from three years. It is expected that the standard of 10 students can be met based upon this average. However, there may be exceptions that should be made.

**Recommendation 6: The data will be aggregated at the highest level.** For example, if a degree is offered, then enrollment in diploma, certificate, and degree programs will be aggregated for this measure. If the highest level is a diploma, then certificate and diploma enrollment will be aggregated. **Furthermore, it is recommended that the Accountability Monitoring Committee be given the authority to make exceptions to this standard when enrollment caps are imposed or for other justifiable reasons.**

VII. **Application of licensure/certification standards.** College personnel were concerned that the licensure/certification standard would serve as a barrier to colleges in initiating new programs that have licensure/certification tests. Furthermore with a new program colleges would not have the opportunity to show significant improvement until after at least one class of graduates had taken the licensure/certification test.

Another issue is how students who participate in the Foothills Nursing Consortium will be counted in the licensure passing rates. However, a process is already in place that allows colleges to verify the data and submit revisions so that they receive “credit” for their nursing students who participate in the program, as long as appropriate documentation is provided. This process will remain in effect.

**Recommendation 7: The first year that a new curriculum or occupational extension program or course has students taking licensure/certification exams will not be used for performance funding purposes. The data will be excluded from the cumulative passing rate for the college for that one year. The data from the first class will serve as the baseline data, and the data in the second year will be used for performance funding purposes. However, the data from the first class will be used for accountability reporting purposes and will be included in the Critical Success Factors report.**

- VIII. **Survey data.** Response rates to some of the locally administered surveys are quite low. The concern is that response rates must be high enough to ensure valid results. The recommendation is based upon the advice of Dr. Peter Ewell, who served as consultant to the Performance Measures and Standards Task Force.

Concerns continue to be expressed by colleges regarding the expense of collecting survey data from the non-returning students to reach a 50 percent response rate or a statistically valid sample. The System Office is requesting funds from the General Assembly to contract for professional services to conduct the non-completer surveys for all 58 of the community colleges. The contract would specify that the response rate must be statistically valid or reach the 50 percent standard for each of the 58 colleges. It is estimated that 40,000 non-returning students would be surveyed annually, at an annual cost of \$125,000.

**Recommendation 8: For survey data to be used for performance funding, there must be either a 50 percent response rate or a sample that is statistically valid at a confidence level of .95. Planning and Research staff will distribute a table to the planners and researchers to determine the sample size necessary to meet the criteria of a statistically valid sample. Furthermore, recurring funds of \$125,000 are requested for the System Office to contract to survey non-returning students for all 58 community colleges.**

- IX. **Cell size.** As with the concern regarding response rates, the recommendation of the consultant was used in determining the number of respondents required in order to use the data. A college with only 10 graduates from the College Transfer program might have a response rate of 50 percent with a cell size of only five. One student who did not achieve a GPA of 2.0 could prevent the college from meeting the standard. Therefore, a minimum cell size is recommended to ensure a large enough size upon which to make valid assessments.

**Recommendation 9: The cell size for survey data must be at least 15. The cell size for measures with “hard data” (college transfer performance and licensure/certification exam passing rates) must be at least 10. Because of the difficulty of some colleges to meet the cell size requirement, the task force recommends further study to determine the effect of these limits.**

- X. **Prison populations, migrant workers, and other subgroups.** Colleges may have no control over the retention and completion of some subgroups of students. The inmate population is under the control of the Department of Corrections who may transfer inmates to other facilities, grant parole, and release prisoners before they have completed their program of study. Some colleges have large prison populations in Basic Skills that negatively impacts performance on the progress of literacy students.

**Recommendation 10: Inmates who have been transferred out of the prison will be eliminated from the computation of the progress of basic skills students. Further study should examine migrants to see if this group of students should be eliminated.**

- XI. **Transfer student performance at private and out-of-state colleges and universities.** Some community colleges have many students transferring to private and out-of-state colleges and universities, who are not included in the transfer performance report. These colleges may be adversely affected by having only the public North Carolina university data.

**Recommendation 11: Colleges may collect and submit to the System Office documentation from private and/or out-of-state colleges and universities for inclusion in calculating the performance of transfers. A standard methodology, developed by Planning and Research, must be used in order for the data to be included in the calculation of transfer performance. The System Office should work with UNC-GA to collect transfer performance data from the North Carolina independent colleges and universities.**

- XII. **Employment rates and out-of-state employment.** The task force identified as an issue whether colleges who had large numbers of graduates working outside of North Carolina would be adversely affected by the use of the Common Follow-Up System, which includes only employers in North Carolina. However, the way that employment rates are calculated using the Common Follow-up System does not penalize colleges for their students who work in other states. However, the total number of graduates who are employed may be depressed since the data are limited to those persons in the North Carolina Employment Security database. There is no recommendation to address this issue.
- XIII. **Grading for Developmental Studies Courses.** A standard grading scale is not in place for all 58 community colleges. Therefore, the calculation of passing rates in developmental studies courses requires that grades be converted to a standard scale for the purpose of reporting on this measure. A task force of developmental studies faculty and program directors has worked on procedures for collecting reliable and valid data on developmental studies students. A grade of C in developmental courses is generally the minimum required for moving on to the next level of course.

**Recommendation 13: Grades of D will not be counted as passing in computing the passing rates in developmental courses. Colleges will convert their grades in developmental studies to the standard grading scale used for computing passing rates in developmental studies courses.**

- XIV. **Publication of Performance Measures in the College Catalog.** The language of the Special Provision clearly states that the six measures must be published in the “catalog each year beginning with the 2001 academic year.” Many colleges publish a catalog only every two years. It is not clear if those colleges should report data for the most recent year or for the most recent two years. Furthermore, because of the time lag in reporting the data and the time it takes to publish the catalog, the performance data will be quite old. If the purpose of this requirement is public accountability, there may be other methods of publishing the data to ensure timeliness. Since there is a federal requirement to make available to students and prospective students certain data on an annual basis, a

better approach may be to publish the performance data along with these required data.

Because staff assumed that public accountability was the purpose of this requirement, staff have told colleges that they must publish data on all 11 performance measures (excluding program enrollment). The discrepancy between the language of the Special Provision and the interpretation of staff is a concern.

**Recommendation 14: It is recommended that the Accountability Monitoring Committee review the concern regarding publishing the six measures for performance funding or the eleven measures used for accountability purposes. Furthermore, it is recommended that the General Assembly allow for ways of publishing the performance data other than the catalog to ensure that students and the public have access to the most current data.**

### Appendix A

Time Frame for Colleges Not Meeting the Performance Standard to Raise Their Performance to the Standard for Each Measure

<b>Performance Measure</b>	<b>Years to Achieve Standard</b>
Progress of Basic Skills Students	3 years
Performance of College Transfer Students	4 years
Passing Rates for Licensure & Certification Exams	3 years
Passing Rates of Students in Developmental Courses	3 years
Success Rate of Developmental Students in Subsequent College-Level Courses (data dependent on Data Warehouse project)	3 years
Program Enrollment	2 years
Student Satisfaction: Completers & Non-Completers	2 years
Goal Completion of Completers	2 years
Curriculum Student Progress & Success	2 years
Employer Satisfaction with Graduates	2 years
Employment Status of Graduates	2 years
Client Satisfaction with Customized Training	2 years