From Appropriations Formula to Performance Indicators

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Public higher education in South Carolina is in the process of moving from a comprehensive formula budgetary system to one in which "performance indicators" will play a prominent role in the allocation of funds among institutions. The budget formula rests upon a dozen or more quantifiable variables and depends heavily upon data comparison with institutions in other states. The performance indicators approach emphasizes budgetary rewards and punishments as determined by the indicator with little reliance upon data from other states. It is the basic purpose of this brief exposition to examine this significant shift of budgetary philosophy and practice as the state moves from a system designed to produce the greatest possible equity in the allocation of funds to one designed to achieve the greatest possible conformity with legislatively stipulated goals and procedures.

One of the essential questions to be asked when discussing formula funding versus other possible budgetary systems is who really determines the expenditure of funds. The formula system allocates the available funds to the institutions but it doesn't tell the institutions how they must distribute the funds that have been earned through the formula.

As time passes more and more allocations are shunted around the formula, often financed by lowering the level of formula funding. Ironically, the decline in formula funding is often taken as a reduction of like amount in total state support of higher education. In actuality it may be simply that the Legislature wishes to decrease the funds allocated through the formula so that these funds can be used for a more specific purpose in higher education. Thus the percentaage of formula funding may be 70 and declining while total state support of higher Education is increasing..

Inevitably the strictures of the formula system breed an animosity that leads to the desire to force change. Whereas the institutions might be content to tinker with the formula (so long as how they spent their funds was not dictated to them) some members of the Legislature and the Commission would not be satisfied with this level of reformist activity. In their view the institutions have a complacent "business as usual" approach to societal educational problems that are far more serious in their consequences than the level of concern evinced by the institutions would suggest. The institutions value the fact that formula funded allocations are not ear marked while legislators and the CHE yearn for greater "accountability" and more readily demonstrable results.

*--The views expressed herein are solely those of the author.

A shift has occurred, consequently, in budgetary philosophy and practice from a comprehensive formula system to a system that conceptually is based on a list of "success factors" embodied in current legislation. Whether or not these factors are present (and presumably also the extent to which they are present) can in the model be determined by the application or use of "performance indicators", groups of variables or characteristics that apparently are thought to be causally related to particular success factors although no formal correlation evidence is cited. The Commission is directed by the legislation to develop "standards for and measurement mechanisms of these performance indicators" and to "base" the appropriations upon achievement of these standards.

King Canute bade the ocean's waves be still. Much more recently the Georgia Legislature passed an edict that the "competencies" of the effective teacher would be discovered. The king's effort was not effective because natural law cannot be superseded by man-made proclamations. The Georgia initiative floundered because there was no way of establishing that any one suggested set of competencies was clearly more effective than others (for different teachers and for different students). Like the emperor's new clothes, the pretense that fiction had been established to be fact was necessary if the parade was to continue.

Scrutiny of South Carolina legislation reveals other instances of unwarranted reification. No one has established by logic or by the application of formal analytical techniques to empirical evidence that the set of "success factors" embodied in legislation is a closed set (i.e., that none are missing) and no one has ascertained the relative weight of each member of the set. That the General Assembly "has determined" that certain "performance indicators" can be used "to measure" or detect the presence or absence of the success factors is not very encouraging, in the absence of any explanation of how they know this to be the case. The specific process that is to be followed in relating indicator to factor is, unfortunately, not evident. What is badly needed is what the present generation calls a "reality check" to distinguish clearly between what we would like to be true and what is indeed the case, between the shadows on the wall of Plato's cave and the real phenomena that occasioned them. Ex cathedra assertions will not suffice.

The legislation stipulates that the CHE must use objective measurable criteria when using the success factors as a basis for funding recommendations. The same requirement would apparently apply to the indicators.

The first success factor is entitled the "mission focus." Its existence and magnitude can be ascertained by use of its performance indicators, according to the performance budgeting model. Thus the first factor is at least partially a function of the first indicator, "expenditure of funds to achieve institutional mission."

But how does one measure the extent or amount of "mission focus" received from a given expenditure? Does twice as much money yield twice as much focus? In what units is the amount of focus expressed? Wouldn't the expenditures on other success factors be just as much a performance indicator for them as for focus? If so, why isn't "expenditure on this factor" on the lists of indicators that accompany the other factors? Other indicators of focus fare little better under scrutiny. Thus other mission focus indicators such as offering an appropriate curriculum, approving a mission statement and adopting a strategic plan appear to qualify as indicators even if the curriculum is weak, the mission statement poor and the strategic plan murky. Apparently the mere presence of these indicators meets the requirements of the model. While this appears absurd on its face the only alternative would pose other problems of measurement since satisfactory magnitudes would have to be determined and then defended. How good a plan is good enough? How do you know that to be the case? Can you measure how good it is? Is this very different from attempting to measure the beauty of a sunset?

Other questions arise concerning the relationship of this first group of indicators to the first factor. Attempts to relate other groups of indicators to their respective success factors strengthen the conclusion that the performance indicator model will be difficult to apply.

A part of the funds that an institution receives from the State comes from the formula and the remainder does not. The part that comes from the formula is the result of multiplying what the formula calls for by a percentage stipulated by the Legislature. Thus "full formula funding" means complete acceptance of what the formula recommends whereas "90% formula funding" means acceptance of a level of appropriations that is 90% of what the formula recommended. The other state funds come to the institution primarily as a result of initiatives administered by the CHE. Thus in 1995-96 direct appropriations to the institutions were $614 million out of $659 million for post secondary education as a whole. The Legislature controls the formula appropriations by setting the discount of what is recommended but these funds are not ear marked. The other state funds are typically administered by the CHE and are tied to specific programs or initiatives. As time passes there is a tendency for these non-formula appropriations to expand. Funds can be made available for this expansion by decreasing the percentage of formula funding.

Some parts of the formula can be recast in the form of performance indicators. For example, one of the steps in the formula provides a "reward" to the institution for each student attracted whose SAT scores exceed 1200 and whose rank in class is in the upper ten percent. In this instance the performance indicators are the SAT scores and rank in class. Both are real, both can be measured and neither is the result of confusing fancy with fact.

There are serious question concerning the extent to which the indicators approach can supplant the formula. Most costs in higher education are fixed or semi fixed labor costs so far as decision making is concerned. There is really no operational alternative to paying salaries that have already been contracted. The indicators approach has the usually meritorious property of effecting change but it may be too volatile to be used to determine the bulk of the appropriations received by the institutions. It may therefore be advisable to set a "trigger" formula funding level that must be attained prior to the use of the performance indicator approach.

Bearing in mind what happened to the baby in the bath, we should not hastily discard the funding formula. Most of its supposed shortcomings are actually due to "end runs" to escape its application. The two budgetary approaches may well prove to be complementary. The indicator approach can react more quickly and can also act on the margin to effect change. The formula approach provides greater certainty in budgeting for recurring expenses and is likely to be more comprehensive in the needs that it addresses. In crafting the amalgam, however, we should endeavor to stay on this side of the looking glass.

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