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ABSTRACT

This report represents the fifth annual survey of programs linking state budgeting to public college and university performance. The 2001 survey once again obtained replies from all 50 states, and focused on performance funding and performance budgeting. After 5 years of surveys, some conclusions are clear, while others remain cloudy. The surveys over time show that the move to relate state resources to campus results represents a trend, not a fad, although the form of that linking remains in doubt. The return of bad budgets for higher education seems to be reviving performance funding and diminishing interest in performance budgeting. At the same time, the new programs in performance funding are much less ambitious and much more cautious than the radical reforms launched in the early and mid 1990s. The State Report Cards issued by the National Policy Center for Higher Education have spurred a resurgence of state performance reporting. A lingering issue is how to provide the missing link between the statewide focus of the State Report Cards and the institutional emphasis of the State Performance Reports. Whatever the preferences among performance funding, budgeting, and reporting, there is no doubt that the demand for accountability from public colleges has clearly swept the country. The real question for the future is whether campus officials will begin to lead, or leave the action to outsiders. One appendix contains a table summarizing survey findings, and the other contains the survey. (Contains 15 tables and 16 references.) (SLD)

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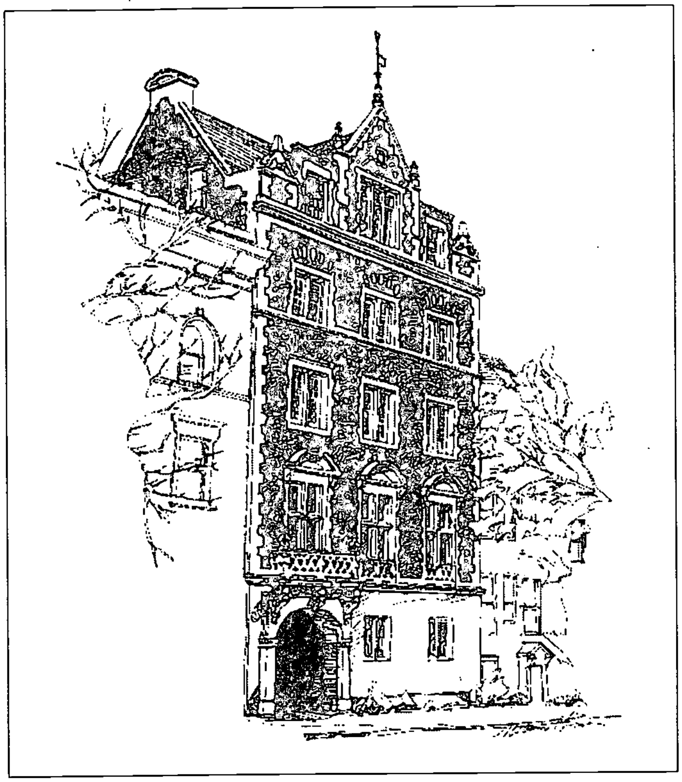
Linking State Resources to Campus Results: From Fad to Trend The Fifth Annual Survey (2001)



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Linking State Resources to Campus Results: From Fad to Trend The Fifth Annual Survey (2001)*

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Higher Education Program
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§ Introduction

Five years ago, the Higher Education Program at the Rockefeller Institute started surveying State Higher Education Finance Officers (SHEFOs). We wanted to see whether policies that related state resources to campus results represented a fad or trend. In 1998, we published a book, whose title raised this question: *Performance Funding for Public Higher Education: Fad or Trend?* (Burke & Serban 1998b). Five years of survey results now suggest that the time has come to cancel the question mark. Funding and budgeting for performance clearly constitute a trend, not a fad. What remains in doubt is the favored — and perhaps the final — form of the linkage between campus performance and states budgets.

From the beginning in 1997, our surveys sought — with far from full success — to differentiate "performance funding" and "performance budgeting," based on the critical connection between state funding and campus performance. Our publications stressed that the tie of resources to results in performance funding is direct, automatic, and formulaic, while the link in performance budgeting is loose, discretionary, and uncertain. The task over time has become ever more trying, since — in practice — new initiatives are borrowing elements from both programs. The differences between the two programs, and at times even their existence, continue to confound the SHEFOs.

In 1999, we added to our Survey questions the third leg of accountability for higher education — performance reporting. Performance funding, budgeting, and reporting represent the main methods of assuring public accountability in a decentralized era of managing for results rather than controlling by regulations. Although the relative popularity shifts among these policies with changing conditions in state revenues and campus funding, our surveys show a surge toward accountability across the country, with dramatic increases in all three programs. State after state accepted the need for accountability, although the best approach to achieving this elusive goal remains in doubt — especially one acceptable to both state and campus policymakers.

* Study supported by the Ford Foundation and the Pew Charitable Trusts.

§ Performance Programs Prevail

Whatever the shifts in preferences among performance funding, budgeting, and reporting, these accountability programs have become increasingly popular in state capitals, although not on public campuses. The trend toward linking — in some way — state budgeting to the performance of public campuses is unmistakable. Seventy-two percent of the states (36) now have at least one of the two programs of performance funding and performance budgeting. Ten states have both programs. Fifty-four percent have performance budgeting, while 38 percent have performance funding. Five years ago, when our surveys started, less than half of the states had one of these programs. Now over 70 percent somehow link state resources to campus results. During those five years, performance funding nearly doubled, expanding from 10 to 19 programs, while performance budgeting grew by 69%, rising from 16 to 27 initiatives.

The rise in performance reporting represents the real phenomenon of this year's survey, with no less than nine new programs. Publication of the first state report card by the National Center For Public Policy in Higher Education apparently reawakened interests in performance reporting in state capitals, if not on college campuses. Thirty-nine states (78%) now have performance reporting, up from 28 in 1999, when we first asked about this practice.

Accountability has clearly swept the country. Only five states (Delaware, Indiana, Montana, New Hampshire, and Vermont) have none of these performance programs. A number of states have more than one. Ten states have all three: California, Connecticut, Florida, Idaho, Illinois, Kansas, Louisiana, Missouri, Oregon, and Texas. In addition, 89 percent of the states with performance funding and 85 percent of those with performance budgeting also have performance reporting. The SHEFOs responses on future prospects indicate that all three programs are here to stay, although their past growth may limit future expansion.

§ The Surveys

Staff of the Higher Education Program at the Rockefeller Institute of Government has conducted telephone surveys of State Higher Education Finance Officers or their designees for the last five years (Burke and Serban 1997; Burke and Serban 1998a; and Burke and Modarresi 1999). The 2001 survey occurred in May, and again obtained replies from all 50 states. Previous polls came in June and July. The questionnaire includes 26 questions that focus mostly on the status, prospects, and impact of performance funding, budgeting, and reporting in the fifty states.

The interviews begin with definitions that distinguish the performance funding from performance budgeting. The questioner then asks whether a state currently has performance funding, budgeting, or reporting. If it has one or more of these programs, the interviewer asks the finance officer to predict whether the program or programs will continue for the next five years. If no program exists, the question changes to the likelihood of adopting the practice. "Highly likely," "likely," "unlikely," "highly unlikely," and "cannot predict" constitute the choices for all of these questions. The questioner also inquires whether a state has performance budgeting for some or all of its agencies.

The SHEFOs or their designees also note whether legislation mandates performance funding, budgeting, or performance reporting and whether it prescribes their indicators. In addition, respondents identify the primary initiator of these programs, choosing from governor, legislature, coordinating or governing board, university or college systems, or "other." Last year's survey started asking respondents to assess the effect of performance budgeting, funding, and reporting on improving campus performance (see Appendix B for the 2001 Survey).

§ Bad Budgets Revive Performance Funding?

This Fifth Annual Survey shows a sudden shift in the relative popularity of performance funding and performance budgeting. In the past, performance budgeting had annually recorded more increases and showed less instability than performance funding. Reversing recent trends, this year's results reveal an increase in performance funding and a slight decline in performance budgeting. Publications of previous survey results stressed the volatility as well as the popularity of performance funding. No less than five of the states that adopted this program during the bad budget years of the first half of the 1990s soon abandoned the program: Arkansas, Colorado, Kentucky, Minnesota, and Washington. The 2001 Survey results reveal what seems like a trend toward re-adoption. This year, Arkansas joined Colorado in reinstating performance funding. In addition, the Council on Postsecondary Education plans to restart performance funding in Kentucky. Moreover, the SHEFO from Minnesota has changed the forecast on the program from unlikely to cannot predict. Only the respondent from Washington, the fifth state that dropped the performance funding, considers re-adoption unlikely.

Recent and past survey results suggests that tight times for state revenues may favor performance funding, which began its surge during the financial depression for higher education in the first half of the 1990s (Hines, 1996). All of the abandoned programs, except the one in Arkansas, were dropped in the late 1990s, when economic recovery brought better state budgets for public higher education. A possible hypothesis is that the loose link of resources to results in performance budgeting is the preferred approach in good times when there is money for all, and that the tight tie of resources to results in performance funding becomes more acceptable in bad times when budgets are constrained. At such times, governors and legislators push programs that press colleges and universities for better performance as cover for diminished state support. These initiatives leave the impression with taxpayers that public higher education does not deserve budget increases until it improves performance.

Changes in the status of performance funding and budgeting between last year's and this year's survey supply some support for this theory. Budget prospects for increased state funding for higher education dropped dramatically between the Surveys in 2000 and 2001. The titles of two articles in the *Chronicle of Higher Education* document the declining outlook. As late as December 1999, one article proclaimed: "As the Economy Chugs Along, States Pour Money Into Higher Education (Schmidt 1999). By April 20, 2001, the *Chronicle* gave a grim prediction: "For Public Colleges, a Decade of Generous State Budgets Is Over" (Hebel and Selingo 2001).

The changing prospects of state revenues and campus funding apparently had an impact on trends in performance funding, budgeting, and reporting. Last year, performance budgeting added no less than six new programs, compared to three for performance funding. This year performance budgeting shows no new programs, while performance funding added two new efforts. In addition, Kentucky moved from the category of unlikely to highly likely to adopt performance funding.

Performance reporting also exhibited an unusual increase, adding nine new programs in a single year. At first glance, the jump of performance reporting during a bad budget year appears an anomaly, since this policy provides no formal link to funding. Perhaps the bite of reporting in bad times is that it makes public the results of higher education, while they remain largely private and invisible in performance budgeting. In addition, performance reporting is the kind of program that legislators love, especially in bad budget years. They can pass a public accountability program without paying for it.

§ Performance Budgeting and Performance Funding

Performance funding and budgeting add institutional performance to the traditional considerations in state allocations of current costs, student enrollments, and inflationary increases. The latter represent input factors that ignore outputs and outcomes, such as the quantity and quality of graduates and the range and benefits of services to states and society. Some states previously adopted programs that front-end funding to encourage desired campus activities, which we call initiative funding. Performance funding and budgeting depart from these earlier efforts by allocating resources for achieved rather than promised results.

The authors of several earlier surveys do not clearly distinguish performance funding from performance budgeting (Christal, 1998; McKeown, 1996). Lack of clear definitions has led policymakers to confuse these two concepts. Alabama offers a recent example of this confusion. Although the coordinating board calls its new program "performance funding," the SHEFO, after hearing the definitions used in this survey, considers it performance budgeting (Alabama Commission on Higher Education, 2000). Although earlier surveys identify a generic direction in budgeting, they fail to clarify how state governments, coordinating boards, or college and university systems actually use campus achievements on performance indicators in the budgeting process. Is the link between resources and results loose or tight? Does campus performance have a direct impact or only an indirect influence on state allocations? And are the funding decisions based on performance automatic or discretionary? Though these questions are clear, the answers often confuse performance funding and performance budgeting. In addition, deciding whether a state has performance budgeting is often difficult for SHEFOs, given its loose link between resources and performance.

Our annual surveys distinguish performance funding from performance budgeting by using the following definitions:

- **Performance funding** ties specified state funding directly and tightly to the performance of public campuses on individual indicators. Performance funding focuses on the distribution phase of the budget process.
- **Performance budgeting** allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as *one factor* in determining campus allocations. Performance budgeting concentrates on budget preparation and presentation, and often neglects, or even ignores, the distribution phase of budgeting.

In performance funding, the relationship between funding and performance is tight, automatic, and formulaic. If a campus achieves a prescribed target or an improvement level on defined indicators, it receives a designated amount or percent of state funding. In performance budgeting, the possibility of additional funding due to good or improved performance depends solely on the judgment and discretion of state, coordinating, or system officials. Performance funding ties state funding directly and tightly to performance, while performance budgeting links state budgets indirectly and loosely to results. The advantages and disadvantages of each is the reverse of the other. Performance budgeting is flexible but uncertain. Performance funding is certain but inflexible. Despite these definitions, confusion often arises in distinguishing the two programs. Moreover, at times, the connection between state budgets and campus performance in performance budgeting almost disappears.

Performance budgeting offers political advantages to policymakers that may explain its usual preference over performance funding in state capitals. Performance funding achieves fiscal consequences at the cost of campus controversies. State legislators may champion, in theory, altering campus budgets based on institutional performance, but they often resist, in practice, programs that may result in budget losses to colleges or universities in their home districts. Performance budgeting offers a political resolution of this troublesome dilemma. Policymakers can gain credit for considering performance in budgeting without provoking controversy by altering campus allocations. This program also retains a prized possession of legislators — control and discretion over state budgets. This loose approach to accountability may seem less acceptable when revenues fall and budgets are tight, especially given the stiff competition for state funding from public schools, health care, welfare, and corrections.

The popularity of performance funding and performance budgeting does not suggest that campus performance is replacing traditional considerations in state budgeting for public colleges and universities. Current costs, student enrollments, and inflationary increases will — and should — continue to dominate such funding, since these factors represent real workload measures. The loose link between performance and budgeting in the case of performance budgeting, and the relatively small sums provided in performance funding, mean that both programs have only a marginal impact on campus budgets. However, the increased use of performance budgeting and funding does indicate the growing belief in state capitals — but not on public campuses — that performance should somehow count in state budgeting for public higher education.

§ Methods of Initiation

Three methods exist for initiating all three programs of performance funding, budgeting, and reporting. Our previous studies suggest that the methods listed below range from the least to the most effective.

- **Mandated/Prescribed:** legislation mandates the program and prescribes the indicators.
- **Mandated/Not Prescribed:** legislation mandates the program but allows state-coordinating agencies in cooperation with campus leaders to propose the indicators.
- **Not Mandated:** coordinating or system boards in collaboration with campus officials voluntarily adopt the plan without legislation.

Mandates, and especially prescriptions, clearly undermine program stability, because they are imposed and ignore the importance of consultation with coordinating, system, and campus officials. No consultation means no consent. According to the new management theories, government officials should decide policy directions and evaluate performance and leave the details to organizational managers. Many of the early programs in both performance funding and budgeting ignored this maxim. Legislation mandated performance funding in four of the five dropped programs and also prescribed the indicators in three. In the fifth, the coordinating board in Arkansas adopted a monolithic plan for two- and four-year campuses designed to please the governor and to avoid a mandate (see Appendix A for the dates and methods of initiation).

§ Performance Budgeting

The use of performance budgeting has increased steadily from 1997 to 2000 (Table 1). States with the program climbed from 16 to 28 — a 75 percent growth in just four years. The 2000 Survey showed the largest annual increase, with six new programs. This year, SHEFOs noted a net drop of one program. This result contrasts sharply with the previous four surveys when performance budgeting managed a net annual increase of three programs. Confusion over whether a state has performance budgeting continues to plague some of the SHEFOs. Finance officers in Massachusetts and New Jersey claim those states should not have been listed as having performance budgeting, while the SHEFO from Washington says that State should have appeared. As in past cases, these changes reflect identification difficulties rather than policy changes.

Table 1. States with Performance Budgeting, 1997 — 2001

Surveys	Number (Percentage)	States
First April 1997	16 states (32%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Mississippi, Nebraska, North Carolina, Oklahoma, Rhode Island, Texas, West Virginia
Second June 1998	21 states (42%)	Colorado, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Mississippi, Nebraska, North Carolina, Oklahoma, Oregon, Rhode Island, South Dakota, Texas, Washington, West Virginia
Third June, 1999	23 states (46%)	Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Massachusetts, Michigan, Nebraska, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Virginia, Washington, West Virginia
Fourth June 2000	28 states (56%)	Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Wisconsin
Fifth 2001	27 states (54%)	Alabama, California, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, Texas, Utah, Virginia, Washington, Wisconsin

As noted last year, recent initiatives in performance budgeting often address the uncertain connection between performance and funding. The newer programs in Alabama and California join Oklahoma in earmarking funds for performance. This change not only reduces uncertainty, it removes one of the major differences from performance funding. In addition, last year's results show that the coordinating or system boards in Maryland, Missouri, Utah, and Wisconsin consider campus performance in institutional allocations in their new programs. Only Nevada, among the programs initiated last year, takes neither of these approaches to clarify the connection between performance and funding. Last year, SHEFOs claimed that coordinating or system boards in nearly 40 percent of states with performance budgeting do consider performance in institutional allocations (Burke, Rosen, Minassians, Lessard 2000).

Despite these efforts to connect state funding and campus results, the 2000 Survey suggested that most states still use performance budgeting for budget preparation and presentation, and not for allocation. Submission of performance reports as part of the executive budget process occurs in over three-quarters of the states with performance budgeting, and discussion of those reports between campus and executive officials happens in over two-thirds of those programs. Legislative committees also receive such reports and discuss them at legislative budget hearings in nearly two-thirds of the states. The visibility of performance diminishes at the budget presentation stage. Only slightly more than half of the executive budgets refer to the performance indicators, and just above a quarter of the budget bills or related documents report on the performance of public colleges and universities (Burke, Rosen, Minassians, Lessard 2000).

SHEFO responses this year indicate that performance budgeting has more effect on state funding for higher education than expected. No respondent claimed great, but three cited considerable and 10 moderate influences on the level of state appropriations for public colleges and universities. In contrast, seven considered the effect minimal and three claimed no effect. Four could not judge the effect on state funding.

Table 2. Effect of Performance Budgeting on Funding

Great Extent	0%	
Considerable Extent	11%	Hawaii, Illinois, Missouri
Moderate Extent	37%	Connecticut, Florida, Idaho, Louisiana, Maine, Maryland, Michigan, Nevada, Oregon, Utah
Minimal Extent	26%	California, Iowa, Mississippi, Nebraska, North Carolina, Virginia, Washington
No Extent	11%	Alabama, New Mexico, Wisconsin
Cannot Judge	15%	Georgia, Kansas, Oklahoma, Texas

Over the years, the growing movement to mandate performance budgeting for all or some state agencies has probably spurred its increase in higher education. Half of the states now have performance budgeting for some or all of their agencies. Over 70 percent of the programs of performance budgeting for higher education come in states with this policy for government agencies. Now only six states with performance budgeting for state agencies are without a program for higher education, which may limit the future growth of performance budgeting.

Table 3. States with Performance Budgeting for State Agencies

Alabama, Arizona, Arkansas, Florida, Hawaii, Idaho, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Hampshire, New Mexico, North Carolina, Oklahoma, South Dakota, Tennessee, Texas, Virginia, Washington, Wisconsin

This year's results confirmed our prediction of last year that the wide coverage of performance budgeting would inevitably impede further growth. The 2001 survey shows no new program. For the first time, performance budgeting seems more unstable than performance funding. SHEFOs from Florida, Georgia, and Washington claim they cannot predict whether performance budgeting will continue in their state. In addition, both houses of the legislature in North Carolina appear ready to abandon performance budgeting. This high level of uncertainty and instability for performance budgeting is unprecedented in previous surveys.

Table 4. Likelihood of Continuing Performance Budgeting		
Highly Likely	63%	Connecticut, Idaho, Illinois, Iowa, Kansas, Louisiana, Maine, Michigan, Mississippi, Nebraska, Nevada, New Mexico, North Carolina, Oklahoma, Texas, Utah, Virginia
Likely	26%	Alabama, California, Hawaii, Maryland, Missouri, Oregon, Wisconsin
Cannot Judge	11%	Florida, Georgia, Washington

Future expansion of performance budgeting is cloudy. Respondents consider only two states likely to adopt the program, the lowest number during the five years of this survey. Conversely, four are thought highly unlikely and four unlikely to start initiatives. SHEFOs cannot predict the program's future in 13 states, which represent more than half of the states currently without the program. The dim prospects began last year, when SHEFOs saw three states as highly likely and one as likely to adopt performance budgeting and five unlikely and three highly unlikely. They considered ten states as unpredictable.

Table 5. Likelihood of Adopting Performance Budgeting*		
Highly Likely	0%	
Likely	9%	Alaska, West Virginia
Unlikely	17%	Delaware, Montana, New York, South Carolina
Highly Unlikely	17%	Arizona, New Hampshire, North Dakota, Rhode Island
Cannot Predict	57%	Arkansas, Colorado, Indiana, Kentucky, Massachusetts, Minnesota, New Jersey, Ohio, Pennsylvania, South Dakota, Tennessee, Vermont, Wyoming
* Percent based on the number of states without Performance Budgeting program.		

§ Performance Funding

Unlike performance budgeting, performance funding increased in 2001, with new programs in Arkansas and Idaho. Their addition, plus the predicted re-adoption in Kentucky, may represent a revival of performance funding. Changes in SHEFOs have altered responses on the existence of performance funding in several states. The Finance Officer from Oregon says that State started performance funding last year, while the one from Oklahoma says that State did not have performance funding, although the Board of Regents has decided to adopt the program in September of 2001.

Table 6. States with Performance Funding		
Surveys	**Number (Percentage)**	**States**
First April 1997	10 states (20%)	Colorado, Connecticut, Florida, Kentucky, Minnesota, Missouri, Ohio, South Carolina, Tennessee, Washington
Second June 1998	13 states (26%)	Colorado, Connecticut, Florida, Illinois*, Indiana, Louisiana, Missouri, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Washington
Third June 1999	16 states (32%)	California*, Connecticut, Florida, Illinois, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia
Fourth June 2000	17 states (34%)	California*, Colorado, Connecticut, Florida, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oklahoma, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas
Fifth 2001	19 states (38%)	Arkansas, California*, Colorado, Connecticut, Florida, Idaho, Illinois*, Kansas, Louisiana, Missouri, New Jersey, New York**, Ohio, Oregon, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas

* 2-year colleges only
** State University System Only

This year, performance funding seems more stable than performance budgeting. SHEFOs say that current programs are likely to continue in 18 states. Only its future in California's community colleges is considered unpredictable.

Table 7. Likelihood of Continuing Performance Funding		
Highly Likely	37%	Colorado, Florida, Idaho, Illinois, Pennsylvania, Tennessee, Texas
Likely	58%	Arkansas, Connecticut, Kansas, Louisiana, Missouri, New Jersey, New York, Ohio, Oregon, South Carolina, South Dakota
Cannot Predict	5%	California

The Finance Officers also see adoption of performance funding as highly likely in three and likely in four states, while it is unlikely in eight and highly unlikely in five. On the other hand, SHEFOs refuse to predict the program's future in 11 states. These predictions are more favorable than last year's forecasts. Although projections of likely adoptions remain about the same, the 2000 responses record more states unlikely to adopt performance funding and fewer that are unpredictable.

Table 8. Likelihood of Adopting Performance Funding*		
Highly Likely	9.5%	Kentucky, Oklahoma, West Virginia
Likely	13%	Alaska, Utah, Virginia, Wisconsin
Unlikely	26%	Arizona, Indiana, Maryland, Nebraska, Nevada, New Mexico, Washington, Wyoming
Highly Unlikely	16%	Delaware, Iowa, Montana, New Hampshire, North Dakota
Cannot Judge	35.5%	Alabama, Georgia, Hawaii, Maine, Massachusetts, Michigan, Minnesota, Mississippi, North Carolina, Rhode Island, Vermont
* Percent based on the number of states without Performance Funding program		

§ Performance Funding: Less Comprehensive, More Cautions

Although the results of the fifth survey indicate some resurgence of performance funding, the new and planned initiatives generally represent much less comprehensive efforts than the early programs launched in the first half of the 1990s. Recent projects have retreated from the radical goal of reforming public higher education for the less ambitious objective of improving institutional performance in specific areas, such as increasing access and raising graduation and retention rates. These new initiatives and recent changes in South Carolina reflect the trend toward a more limited but more mature stage of performance funding. Several years ago, the South Carolina Commission on Higher Education replaced a provision for funding based entirely on performance with a limited funding pool. Since the last SHEFO survey, it has also cut the number of indicators used for budgeting from 37 to around 13. Recent plans for performance funding tend to follow South Carolina's retreat to limited funding and fewer indicators. The Oklahoma Board of Regents has agreed to allocate $2 million for two indicators, although the State Office of Budget and Finance is pushing to increase that sum. Oregon started a program last year with limited funding and a few indicators in critical areas, such as retention, graduation, job placements, and sponsored research. The Idaho initiative is the exception. It allocates five percent of state funding based on campus results on a comprehensive list of 12 indicators that read like the programs begun in the early 1990s.

On the other hand, the new program in Arkansas confirms the more cautious approach to performance funding. The Coordinating Board and the Department of Education drafted the first performance plan to please the Governor. It represented a monolithic model that covered two- and four-year institutions, without regard for their different missions. Apparently, the State leaders learned their lesson. The new plan represents an experiment in performance funding, which uses two volunteer campuses — one two-year and one-four year — to develop a new and equitable approach that links state funding to institutional performance. Kentucky is also pursuing a careful approach to implementation. Institutional goals for enrollment, retention, and graduation rates, initially set by the Council of Postsecondary Education in 1999, were renegotiated this spring for implementation in the budget process this fall. This new approach hopes to substitute consultation for the contention than characterized development of the abortive first effort at performance funding in Kentucky.

All of the new and planned programs in performance funding contrast sharply with those launched in the mid 1990s. They usually include less funding, limited goals, fewer indicators, incremental implementation, and more institutional choice to encourage mission and sector diversity. Legislation mandated six of the eight programs in performance funding started in the first half of the 1990s and prescribed the indicators in five. In contrast, legislation mandated only three of the six programs initiated in the last two years and prescribed none of the indicators. Coordinating and system boards started the other three programs in performance funding, although they acted with at least one eye on the governors and legislators, who seem increasingly interested in somehow tying budgets to performance.

§ State Report Cards Spur Performance Reporting

Performance reporting represents a third method of demonstrating accountability and encouraging improved performance. These periodic reports recount the performance of colleges and universities on priority indicators, similar to those found in performance funding and budgeting. They are usually sent to governors, legislators, and campus leaders, and often to the media. The reports use publicity rather than funding or budgeting to stimulate colleges and universities to improve their performance. Experience with performance reporting is a valuable prerequisite to both performance funding and budgeting. Seventy percent of the states with performance funding and 68 percent of those with performance budgeting also have performance reporting. Only half of the states with neither program have performance reporting. Two of the five states that originally dropped performance funding did not have performance reporting. Legislation mandated performance reporting in nearly 70 percent of the cases, but prescribed the indicators in only four (see Appendix A).

Performance reporting jumped by nine new programs this year, after adding only two in 2000. This large increase in a single year undoubtedly stems from the concerns that both preceded and followed issuance of the State-by-State Report Card on Higher Education by the National Policy Center on Higher Education in December of 2000. Our Survey in June of that year asked SHEFOs about the level of concern in their agencies over the impending State Report Card. Ten percent said very and 30 percent moderately concerned, while 22 percent claimed only minimal, and 10 percent not concerned. The others could not assess the concern or did not respond to the question. Whatever those responses, the publication of the report cards has certainly reawakened interest in performance reporting.

Table 9. States with Performance Reporting, 2001

Fifth 2001	39 states	Alabama, Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Hawaii, Idaho, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming

Nearly all of the current programs in performance reporting are considered highly likely to continue. Only the SHEFO from Wyoming sees persistence as unlikely, and the one from Washington views its program's future as unpredictable. More surprising — since the program already exists in 78 percent of the states, SHEFOs see expansion as highly likely in two and likely in two, and unlikely in four states. Its future prospects in three states are thought unpredictable.

Table 10. Likelihood of Continuing Performance Reporting		
Highly Likely	85%	Alaska, Arizona, California, Colorado, Connecticut, Florida, Georgia, Idaho, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Minnesota, Mississippi, Missouri, New Mexico, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, Wisconsin
Likely	10%	Alabama, Hawaii, Massachusetts, New Jersey
Unlikely	2.5%	Wyoming
Highly Unlikely	0.0%	
Cannot Judge	2.5%	Washington

Table 11. Likelihood of Adopting Performance Reporting*		
Highly Likely	18%	Iowa, Oklahoma
Likely	18%	Nebraska, New York
Unlikely	36%	Delaware, Montana, Nevada, New Hampshire
Highly Unlikely	0%	
Cannot Judge	27%	Arkansas, Indiana, Vermont

* Percent based on the number of states without Performance Reporting program

The perceived impact of performance reporting on campus allocations in colleges and universities is surprising. Although this policy has no formal connection to budgeting, SHEFOs claim that coordinating or system governing boards in nearly half of the states with performance reports consider their results when making campus allocations. This statistic is higher than last year's estimate for performance budgeting — that 40 percent of the coordinating or governing boards considered institutional performance in campus allocations. A possible explanation is that 47 percent of the states with performance reporting also have performance funding. The SHEFOs in those states possibly did not separate the impact of the two programs. Indeed, several — such as Missouri, South Carolina, and Tennessee — use the same indicators for both performance reporting and performance funding. This response provides another example of how SHEFOs and possibly state policy makers do not make clear distinctions when assessing the effect or impact of these accountability programs. On the other hand, a recent survey of some 60 legislative leaders in 50 states says that 62 percent saw reported results of colleges and universities on performance measures as an important and increasing factor in state appropriations for public colleges and university (Ruppert 2001).

Table 12. States that Consider Performance Reporting in the Allocation of Resources to Colleges and Universities		
Yes	48%	Alaska, Colorado, Hawaii, Idaho, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Missouri, New Mexico, North Dakota, Rhode Island, South Carolina, South Dakota, Texas, Utah, West Virginia
No	43.5%	Alabama, Arizona, California, Connecticut, Florida, Georgia, Kansas, Mississippi, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Virginia, Washington, Wisconsin, Wyoming
Don't Know	2.5%	New Jersey
No Response	5%	Michigan, Minnesota (did not respond to this question)

§ State Performance Programs and the State Report Card

An obvious — though unfair — question is how did the states with the accountability programs fare on the state report cards issued by the National Center for Public Policy and Higher Education. Such comparisons are unfair, because the Center report cards assess statewide performance, while the state performance reports tend to stress institutional results. Despite this difference, we compared the states with one or more of the programs of performance budgeting, funding, and reporting to see if they fared better in the scoring than states without these programs. The results suggest that states with one or more of the performance programs received no better grades than those without these policies.

Many states with these performance programs did poorly on the report cards, in part, because they do not contain critical indicators reflecting statewide needs, such as adult degree attainment, high school performance, college cost as a percent of family income, and the state's economic and civic benefits from higher education. Our analysis of the indicators used in 30 state performance reports shows that only six included adult degree attainment, three high school course taking, and two tuition and fees as a percent of family income. Not surprisingly, California fared better than many states with performance reporting. Its report on statewide indicators, prepared by the California Postsecondary Education Commission, includes most of the measures used in the National Center's State-by-State Report Card.

A number of states, including Kentucky and Missouri, are revising their reports to include these statewide indicators, undoubtedly in preparation of the second State Report Card in 2002. Of course, different indicators would not necessarily raise a state's grades, since Pat Callan, President of the National Center, claimed that differences depended mostly on "geography, income, wealth, and ethnicity" (Hebel and Selingo 2001). Nonetheless, the state performance reports and the state report cards should support each other. The state performance report should include system wide as well as institutional results. The National Center should not ignore institutional results, since state results are unlikely to improve without highlighting the connection between statewide and institutional performance. The State by State Report Cards created considerable concern among some state policymakers, but campus leaders may well feel they got a "bye" on the first round of report cards, which did not assess institutional performance. The Kentucky Council On Postsecondary Education recognizes that some of the indicators must evaluate performance at the state level, such as college going rates, educational attainment, and high school course taking, while other measures should set institutional objectives to encourage changes directed toward the statewide goals (Kentucky Council on Postsecondary Education, March 19, 2001). Governors and legislators may also feel they got a bye, because the State Report Cards did not grade them for their funding of higher education, although they did include state appropriations as contextual information. Indeed, only the State Higher Education Executive Officers seem stuck with the responsibility for poor report cards. These officials coordinate higher education or direct its public systems, but they neither produce the performance nor fund the operations of colleges and universities.

§ Impact on Campus Performance

Of course, the bottom-line in assessing performance funding, budgeting, and reporting is the extent to which each improves institutional performance. A realistic assessment is still premature, since many of these programs are products of the mid- to late-1990s, and most have been fully implemented for only a few years. However, it is not too early to begin a preliminary assessment of their effect on performance. Not surprisingly, 42 percent of the SHEFOs say it is too early to evaluate the effect of performance funding — the newest of the three programs — on institutional improvement. Twenty-one percent claim the program has improved performance to a great or considerable extent; 16 percent, moderate extent; and 21 percent, minimal or no extent. These results are down from last year when 35 percent claimed great or considerable impact on improvement. The chief changes are that South Carolina fell from great to moderate and Tennessee from great to considerable. It is interesting to note that the fall of South Carolina followed its move to a limited funding pool from allocations based entirely on performance.

Despite this change for South Carolina, funding levels, along with program duration, appear to affect appraisals of the impact on performance. Tennessee, Missouri, South Carolina, and Ohio have had performance funding for some time and have supported them with sizeable sums. Although Florida's effort has existed for five years, its university sector has received scant funding in the last few budgets. Even respondents rating their program's effect on improvement as low say that performance funding has caused campus leaders to concentrate more on institutional performance.

Table 13. Extent of Performance Funding that Improved the Performance of Public Colleges and/or Universities

Great Extent	5%	Missouri
Considerable Extent	16%	Ohio, South Dakota, Tennessee
Moderate Extent	16%	Connecticut, Idaho, South Carolina
Minimal Extent	16%	Florida, Louisiana, Oregon
No Extent	5%	New Jersey
Cannot Judge	42%	Arkansas, California*, Colorado, Illinois*, Kansas, New York, Pennsylvania, Texas

* 2 year only

With its longer history, only 22 percent of the SHEFOs thought it is too early to assess the impact of performance budgeting. Merely 11 percent described its effect on institutional performance as great or considerable. A third said moderate and a third minimal or no effect. Responses of great extent are somewhat lower than last year, but replies of considerable extent are higher and those of minimal and no extent lower.

Table 14. Extent of Performance Budgeting that Improved Performance of Public Colleges and/or Universities		
Great Extent	3.7%	Missouri
Considerable Extent	7.5%	Louisiana, Maine
Moderate Extent	33.3%	Connecticut, Hawaii, Idaho, Illinois, Iowa, Maryland, Michigan, Oklahoma, Oregon
Minimal Extent	18.5%	Florida, Mississippi, Nebraska, New Mexico, Virginia
No Extent	15%	Georgia, Nevada, Washington, Wisconsin
Cannot Judge	22%	Alabama, California, Kansas, North Carolina, Texas, Utah

The surprise is that SHEFOs think that performance reporting has about the same effect on improving institutional performance as performance budgeting. Although none claimed great influence for performance reporting, 13 percent cite considerable and 36 percent moderate extent. Fifteen percent said minimal, but only eight percent no extent. A quarter felt they could not judge the impact. A possible reason for the higher assessment of reporting on performance than expected is the high percentage of the same states that also have performance funding or budgeting. SHEFOs in states with two or more programs may not differentiate between their impacts on institutional performance.

Table 15. Extent of Performance Reporting that Improved Performance of Public Colleges and/or Universities		
Great Extent	0%	
Considerable Extent	13%	Kentucky, Michigan, Missouri, South Carolina, West Virginia
Moderate Extent	36%	Hawaii, Idaho, Illinois, Louisiana, Maryland, New Jersey, New Mexico, North Carolina, Pennsylvania, South Dakota, Tennessee, Utah, Virginia, Wyoming
Minimal Extent	15%	Arizona, California, Florida, Massachusetts, Mississippi, Wisconsin
No Extent	8%	Alabama, Rhode Island, Washington
Cannot Judge	28%	Alaska, Colorado, Connecticut, Georgia, Kansas, Maine, Minnesota, North Dakota, Ohio, Oregon, Texas

The survey suggests that it is still too soon to assess the full effect of all three policies on performance, since many of these programs are relatively new. It does indicate, as expected, that performance funding has more effect than performance budgeting, and that the impact of both approaches increases in relation to the clarity and level of fiscal consequences. On the other hand, too much funding can have the detrimental effect of producing budget instability. The early effort in South Carolina to base all funding on performance presents a classic example of this flaw, although the reduction in funding in the Palmetto state may explain the fall in the assessment of its impact on institutional performance. The responses do indicate that performance reporting — without a formal connection to funding — has more impact on performance than expected.

§ A Flaw in All Three Programs

Results from our nine-state survey of state and campus leaders in early 1997 reveal what may become a fatal flaw for performance funding. This flaw probably extends as well to performance budgeting and reporting. The Survey showed that performance funding tends to become invisible on campuses below the level of vice presidents, because of the failure to extend performance funding to internal allocations on campus (Serban, 1997). Institutions are held responsible for their results, but not the internal departments that produce the performance. Results from our five-state survey of campus policymakers on performance funding in 2000 confirm this conclusion (Burke & Associates, forthcoming). Both surveys suggest that improving campus performance requires budgeting for internal units based partly on their performance on priority objectives. Performance reporting of institutional results is also unlikely to improve performance unless the results of the internal units and departments on campus are also publicized. The anomaly of all three accountability programs is that they hold institutions responsible for performance, but campus leaders do not apply that same responsibility to the internal divisions that are largely responsible for producing institutional results.

§ Findings

- The return of bad budgets may revive performance funding and reduce the growth of performance budgeting;
- The new initiatives in performance funding have corrected the excesses of earlier programs, but their reduced goals may offer too little to state policy makers without placating campus leaders;
- The first State Report Cards have spurred interests in performance reporting, but a connection is needed between the statewide focus of the former with the institutional emphasis of the latter, since the performance of the whole is the product of its parts; and
- Although performance funding, budgeting, and reporting are distinguishable in theory, in practice and in the perspective of policymakers and the public they often seemed blurred.

§ Conclusion

After five years of surveys, some conclusions are clear, but others remain cloudy. The surveys over time show that the move to relate state resources to campus results represents a trend not a fad, although the form of that linkage remains in doubt. The return of bad budgets for higher education seems to be reviving performance funding and diminishing interest in performance budgeting. At the same time, the newer programs in performance funding are much less ambitious and much more cautious than the radical reforms launched in the early and mid 1990s. The State Report Cards issued by the National Policy Center for Higher Education have spurred a resurgence of state performance reporting. A lingering issue is how to provide the missing link between the statewide focus of the State Report Cards and the institutional emphasis of the State Performance Reports.

Whatever the preferences among performance funding, budgeting, and reporting, there is no doubt that the demand for accountability from public colleges has clearly swept the country. Until now, state policy makers in government and coordinating boards have taken the lead in the accountability movement. The real question for the future is whether campus officials will begin to lead or leave the action to outsiders. Since the search for accountability and budgeting for performance seems here to stay, campus leaders have the choice of acting now or complaining later.

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Appendix A

Characteristics of Performance Budgeting				
State	**Adoption Year**	**Mandated**	**Indicators**	**Initiation**
Alabama	2000	Yes	Yes	Governor
California	2000	No	No	Governor, System Boards
Connecticut	1999	Yes	No	Governor, University System
Florida	1994	Yes	No	Governor, Legislature
Georgia	1993	Yes	No	Governor
Hawaii	1975	Yes	No	Governor, Legislature
Idaho	1996	Yes	No	Legislature
Illinois	1984	No	No	Coordinating Board, University System
Iowa	1996	Yes	No	Governor
Kansas	1995	No	No	Coordinating Board
Louisiana	1997	Yes	No	Legislature
Maine	1998	Yes	No	Governor
Maryland	2000	No	No	Governor
Massachusetts	1999	No	No	Legislature, Coordinating Board
Michigan	1999	No	No	Governor
Mississippi	1992	Yes	No	Legislature
Missouri	1999	No	No	Governor, Coordinating Board
Nebraska	1991	No	No	Coordinating Board
Nevada	2000	No	Yes	Governor
New Jersey	1999	No	No	Governor
New Mexico	1999	Yes	No	Legislature
North Carolina	1996	Yes	No	Governor
Oklahoma	1991	No	No	Coordinating Board
Oregon	1998	No	No	Coordinating Board
Texas	1991	Yes	Yes	Legislature
Utah	2000	No	No	Legislature, Coordinating Board
Virginia	1999	No	No	Governor,
Washington	1999	Yes	Yes	Legislature
Wisconsin	2000	No	No	Coordinating Board

Characteristics of Performance Funding				
State	**Adoption Year**	**Mandate**	**Indicators**	**Initiation**
Arkansas	2001	Yes	No	Legislature
California	1998	No	No	Community College System
Colorado	2000	Yes	No	Legislature
Connecticut	1985	Yes	No	Coordinating Board
Florida	1994	Yes	Yes	Governor, Legislature
Idaho	2000	No	No	Coordinating Board
Illinois	1998	No	No	Coordinating Board, College System
Kansas	2000	Yes	No	Governor, Legislature
Louisiana	1997	No	No	Coordinating Board
Missouri	1991	No	No	Coordinating Board
New Jersey	1999	No	No	Governor, Coordinating Board
New York	1999	No	No	University System
Ohio	1995	Yes	Yes	Coordinating Board
Oregon	2000	No	No	Coordinating Board
Pennsylvania (State System)	2000	No	No	University System
South Carolina	1996	Yes	Yes	Legislature
South Dakota	1997	No	No	Governor, Legislature, Coordinating Board
Tennessee	1979	No	No	Coordinating Board
Texas	1999	Yes	Yes	Legislature

Characteristics of Performance Reporting		
State	**Was it (PR) Mandated by Legislation?**	**Were the Indicators (PR) Prescribed by Legislation?**
Alabama	No	No
Alaska	Yes	Yes
Arizona	Yes	No
California	Yes	No
Colorado	Yes	Yes
Connecticut	Yes	No
Florida	Yes	Yes
Georgia	Yes	No
Hawaii	Yes	No
Idaho	Yes	No
Illinois 2 year	No	No
Kansas	Yes	No
Kentucky	Yes	No
Louisiana	Yes	No
Maine	No	Yes
Maryland	Yes	No
Massachusetts	Yes	No
Michigan	Yes	No
Minnesota	Yes	Yes
Mississippi	Yes	No
Missouri	No	No
New Jersey	Yes	Yes
New Mexico	No	No
North Carolina	Yes	No
North Dakota	Yes	No
Ohio	No	No
Oregon	No	No
Pennsylvania	No	No
Rhode Island	No	No
South Carolina	Yes	Yes
South Dakota	No	No
Tennessee	No	No
Texas	Yes	Yes
Utah	Yes	No
Virginia	Yes	No
Washington	Yes	Yes
West Virginia	Yes	Yes
Wisconsin	No	No
Wyoming	Yes	Yes

Appendix B

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS:
PERFORMANCE REPORTING, FUNDING, AND BUDGETING
June 2001

SURVEY OF STATE HIGHER EDUCATION FINANCE OFFICERS
PERFORMANCE REPORTING, FUNDING, AND BUDGETING
June 2001

NAME: ____________________________
STATE: ___________________________
PHONE #: ________________________

Definitions:

PERFORMANCE FUNDING: Ties specified state funding directly and tightly to the performance of public campuses on performance indicators.

PERFORMANCE BUDGETING: Allows governors, legislators, and coordinating or system boards to consider campus achievement on performance indicators as one factor in determining public campus allocations.

Section One: Performance Funding

1) Does your state currently have **performance funding** for public colleges and/or universities?

Yes ☐ No ☐

If Yes,

2) What is the percent of funding allocated to performance funding for public colleges and/or universities in your state?
------------------------ %

3) Was it mandated by legislation?

Yes ☐ No ☐

4) Were the indicators prescribed by legislation?

Yes ☐ No ☐

5) Of the following, what individual or group(s) initiated **performance funding**?

Governor ☐
Legislature ☐
Coordinating board or agency ☐
University system(s) ☐
Other (please specify) ☐

---

6) In your opinion, to what extent has **performance funding** improved the performance of public colleges and/or universities in your state?

Great Extent ☐ Considerable Extent ☐ Moderate Extent ☐
Minimal Extent ☐ No Extent ☐ Cannot Judge ☐

7) How likely is it that your state will continue **performance funding** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

If no,

8) How likely is it that your state will adopt **performance funding** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

Section Two: Performance Budgeting

9) Does your state currently have **performance budgeting** for public

colleges and/or universities?

Yes ☐ No ☐

If Yes,

10) Was it mandated by legislation?

Yes ☐ No ☐

11) Were the indicators prescribed by legislation?

Yes ☐ No ☐

12) Of the following, what individual or group(s) initiated **performance budgeting**?

- Governor ☐
- Legislature ☐
- Coordinating board or agency ☐
- University system(s) ☐
- Other (please specify) ☐

13) In your opinion, to what extent has **performance budgeting** improved the performance of public colleges and/or universities in your state?

Great Extent ☐ Considerable Extent ☐ Moderate Extent ☐
Minimal Extent ☐ No Extent ☐ Cannot Judge ☐

14) How likely is it that your state will continue **performance budgeting** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐
Cannot Predict ☐

15) Does the **performance budgeting** program earmark a certain dollar figure or percent of state support for allocation to colleges and universities?

Yes ☐ No ☐

16) How would you describe the actual effect of performance budgeting in your state on the funding of public colleges and universities?

Great Effect ☐ Considerable Effect ☐ Moderate Effect ☐ Minimal Effect ☐ No Effect ☐ Cannot Judge ☐

If no,

17) How likely is it that your state will adopt **performance budgeting** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

18) Is **performance budgeting** used in your state for other state agencies besides higher education?

Yes ☐ No ☐

Section Three: Performance Reporting

19) Does your state currently have **performance reporting** for public higher education?

Yes ☐ No ☐

If Yes,

20) Was it mandated by legislation?

Yes ☐ No ☐

21) Were the indicators prescribed by legislation?

Yes ☐ No ☐

22) Of the following, what individual or group(s) initiated **performance**

reporting?

Governor ☐
Legislature ☐
Coordinating board or agency ☐
University system(s) ☐
Other (please specify) ☐

---

23) In your opinion, to what extent has **performance reporting** improved the performance of public colleges and universities in your state?

Great Extent ☐ Considerable Extent ☐ Moderate Extent ☐ Minimal Extent ☐ No Extent ☐ Cannot Judge ☐

24) How likely is it that your state will continue **performance reporting** for public higher education over the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐ Cannot Predict ☐

25) Do the coordinating and/or system governing boards consider performance reports in the allocation of resources to colleges and universities?

Yes ☐ No ☐

If no,

26) How likely is it that your state will adopt **performance reporting** for public higher education in the next five years?

Highly Likely ☐ Likely ☐ Unlikely ☐ Highly Unlikely ☐
Cannot Predict ☐

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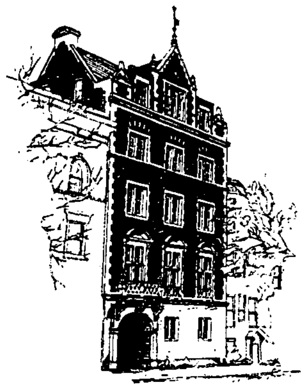

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