The state or external budget planning process involves the Commission on Higher Education, the Governor, and the General Assembly.

The state budget process, outlined in Figure 1, begins with a state agency's submission of budget requests to the Governor. These requests include the "base budget," special program requests and the Agency Activity Inventory. In the case of higher education, public universities and colleges submit their requests through the Commission on Higher Education (CHE), which in turn submits a request to the Governor on behalf of all institutions. CHE does not have the authority to change the requests submitted by the institutions, but the CHE must recommend funding levels for special program requests and set priorities for capital projects before submitting them. Excerpts from the CHE's state law follow:

SECTION 59-103-35. Submission of budget; new and existing programs.
All public institutions of higher learning shall submit annual budget requests to the commission in the manner set forth in this section. ... The budget request for the public higher education system shall be submitted by the commission to the Governor and appropriate standing committees of the General Assembly in conjunction with the preparation of the annual general appropriations act for the applicable year. ... No new program may be undertaken by any public institution of higher education without the approval of the commission. The provisions of this chapter apply to all college parallel, transferable, and associate degree programs of technical and comprehensive education institutions. All other programs and offerings of technical and comprehensive education institutions are excluded from this chapter. [Act 359 of 1996]

CHE Budget Request and Performance Funding. The law requires that all higher education funding, except funds specifically earmarked by the General Assembly, be based on the performance-based funding methodology developed by the CHE. One of the duties imposed on the CHE by this act is the following:

(b) base the higher education funding formula in part on the achievement of the standards set for these performance indicators including base-line funding for institutions meeting the standards of achievement, incentive funding for institutions exceeding the standards of achievement, and reductions in funding for institutions which do not meet the standards of achievement...

In its request to the General Assembly, the CHE considers statewide needs of higher education. Also, the Commission solicits and considers capital and earmarked "below-the-line" budget request items from all institutions.

Establishment of Funding Base. There are two major components of the CHE's overall Performance Funding plan. The first component, the Mission Resource Requirements model (MRR), is the estimate of the fiscal needs of an institution. This computation establishes a base funding need to which performance ratings are applied. The second component is the determination of a funding percentage based on institutional ratings on indicators of performance, accomplished through the Resource Allocation Plan that actually determines institutional funding levels.
As indicated in Figure 1, the fiscal year 2010-2011 budget process began in the fall of 2009 with the University's submission of required data to the CHE for computation of the Mission Resource Requirements (MRR) for higher education institutions. The data submitted to the CHE include the following:

- Student Credit Hours by Discipline
- Number of Full Time Equivalent Students (Student FTEs)
- Number of Full Time Equivalent Faculty (Faculty FTEs)
- Expenditures by Major Area - Instruction, Research, Public Service, Libraries, Student Services, Plant Operation and Maintenance, and Administration
- Facilities Data and Other Information to Support the MRR Computation
- Revenue Generated by the Institution through Tuition and Other Fees.

These and other data elements contribute to computation of the Mission Resource Requirement, which is intended to define the total required costs of operating each of the state's 33 institutions. Peer national and regional cost data are examined to help compute the required costs of various program areas, instruction, research, public service, facility operation and maintenance, student support, and other areas. After computing the operational costs, the expected student fee revenue must be deducted. According to the CHE: "The total Education and General (E&G) cost amount must be reduced by these student revenues in order to determine the amount of support required from the State."

E&G costs exclude auxiliary enterprise activities such as housing, food service, and athletics, since these activities are self-supporting. The S. C. Commission on Higher Education has used the MRR to determine operating funds of the institutions and in the development of its funding request presented to the General Assembly. Due to the severe budgetary constraints faced by our state in the last decade, the level of funding from the General Assembly has not supported the recommendations of the MRR. To start FY2010, the percentage of appropriations compared to the MRR was 48.72% for the USC Columbia campus. Following the series of budget reductions, the funding appropriated was less than 45% by the end of the 2010 fiscal year.

In addition to the CHE submission, all higher education institutions are required to participate in developing an agency activity inventory database to assist in the development of the budget. This process has been in place for three full years and is coordinated by the Budget and Control Board's Office of State Budget with the Governor's Office. The Governor's aim was to build an executive budget "based on clearly articulated statewide goals" and to concentrate on outcomes and results. Agencies, including institutions of higher learning, are expected to analyze programs and assess value of the program based on the associated costs. As a companion to the agency activity inventory, each year with the submission of the annual accountability report, the University documents actual financial performance in this format.

As shown in Figure 1, the CHE's recommendations provide input for the Governor and the General Assembly as they consider budget priorities for the upcoming year. If the House and the Senate approve differing versions of the appropriations bill, a conference committee works out the differences and presents a compromise package back to the General Assembly. Following ratification of the conference committee report, the bills then go to the Governor for signature, who may exercise line-item vetoes, which the Legislature may override by a two-thirds vote.
STATE BUDGET PROCESS FOR USC AND HIGHER EDUCATION
FISCAL YEAR 2010-2011

USC submits Financial and Performance Data

USC presents Budget Request and Capital Funding Requests

USC presents Higher Education

California Higher Education Financial Plan

USC presentation to CHE

Governor

Executive Budget to General Assembly

House Ways and Means Higher Education Subcommittee

USC submits Budget and Training Requests

House Ways and Means Committee

House of Representatives

Senate

Senate Finance Committee

Senate Appropriations Committee

House Appropriations Committee

Conference Committee Report and Final Appropriations Bill

Governor

Line Item Veto

House of Representatives

Appropriations Act

State Treasurer

Budget & Control Board

Controller General

USC