3B Evaluate and Prioritize Use of Resources to Enact the Instructional Priorities

SUMMARY

Prerequisite Best Practices:
- Best Practice in School Budgeting, 2C — Research and Develop Potential Instructional Priorities
- Best Practice in School Budgeting, 2D — Evaluate Choices amongst Instructional Priorities

Key Points
- Prior to evaluating proposed expenditures for alignment with instructional priorities, a school district must understand the cost of the activities needed to implement the instructional priorities. It is recommended that a district prepare an inventory of programmatic elements, including the purpose of the programmatic element, its cost, and some type of objective evidence of its effectiveness. A district that is unable to develop a comprehensive inventory of existing programmatic elements should, at a minimum, identify the costs associated with implementing its instructional priorities.
- After identifying the cost to implement its instructional priorities, a district will need to identify how it will pay for them. Three basic options include raising new revenue, sunsetting services that are not aligned with instructional priorities or are not cost effective, or identify efficiencies to perform existing services for a lower cost.
- Once resources to pay for the instructional priorities have been identified, it is recommended that a district use a "structured judgment" approach to weighing trade-offs. A district should develop transparent criteria to evaluate the options, establish a transparent scoring system, and use data to support the score.
- Making trade-offs may also require a district to review any perceived barriers to determine the level of constraint they are actually subject to. A district should further investigate ways to overcome these constraints by seeking waivers, obtaining legal advice, and addressing organization change management concerns.

Related Award Program Criteria
- **Criterion 3.B.1: Analyze Revenues (Mandatory).** The applicant has submitted documentation with its supplementary materials that shows the results of its revenue analysis. The applicant can explain the analysis and important conclusions reached in the award application.
- **Criterion 3.B.2: Sunset Programs (Mandatory).** The applicant has submitted documentation with its supplementary materials that shows the results of its evaluation of its services to determine if any of them might be sunset in order to free resources for the instructional priorities. The applicant can explain its approach to evaluating the potential for sunsetting a service and any important conclusions reached in the award application.
- **Criterion 3.B.3: Finding Efficiencies. (Mandatory).** The applicant has submitted documentation with its supplementary materials that shows the results of its efforts to find efficiencies in its existing services. The applicant can describe the efficiencies found in the award application.

Introduction

An essential feature of a budget that best aligns resources with student achievement is that spending on activities that support the school district's instructional priorities is prioritized above spending on other items. (An instructional priority is an overall approach for overcoming the challenges the district faces and achieving its goal. See Best Practice in School Budgeting, 2C — Research and Develop Potential Instructional Priorities.)[1] This approach requires that districts abandon an incremental approach to budgeting wherein the next year's budget is the same as last year's budget with changes around the margin to the degree necessary to distribute incremental revenue gains or losses among the district's subunits. Aligning resources with student achievement also implies that the district will take steps to actively determine the extent to which spending proposals align with the instructional priorities, and how cost effective a given expenditure proposal is compared to other options for enacting the instructional priorities.

Of course, budgeting is an inherently political activity and incremental budgeting is common because it minimizes political conflict.[2] As such, a non-incremental approach to budgeting must take steps to manage political differences and channel those differences into constructive conversation.

This best practice document describes:

I. Preparing to evaluate and prioritize spending by first understanding the options that are on the table.

II. Finding opportunities to obtain the resources to pay for the new spending necessary to implement the instructional priorities.

III. Weighing trade-offs between the benefits available from pursuing the instructional priorities against the cost associated with raising the resources to pay for the instructional priorities.

IV. Overcoming constraints on changing how resources are used.

I. Preparing to Evaluate and Prioritize Expenditures

Background. As a prerequisite to evaluating proposed expenditures for alignment with instructional priorities, a district must understand, at a minimum, the cost of the activities needed to implement the instructional priorities. Ideally, however, the district will understand the full breadth of the programs and services it offers by conducting an inventory of its current expenditures. Districts should organize this inventory by "programmatic elements." A programmatic element is a categorization of budgetary inputs (e.g., personnel, dollars) that can be clearly associated with a service provided by a school or district.[3] Programmatic elements provide more insight into the services that the district and its schools are providing to students compared to raw object-of-expenditures (e.g., personnel, contractual services, materials, etc.). With this information in hand, the district can evaluate how well its inventory of current programmatic elements aligns with instructional priorities and how it compares to other spending options. It is likely that a district will find that at least some of its programmatic elements do not align with its instructional priorities. The resources funding these unaligned elements may be better spent elsewhere.

Recommendation. Districts should prepare an inventory of programmatic elements as the foundation for evaluating and prioritizing spending. Ideally, the inventory will include the purpose of the programmatic element, its cost, and some type of objective evidence of its cost-effectiveness. The costs of each element should include all direct costs, including compensation of personnel and equipment used. For evidence of cost-effectiveness, a district should consider the three following methodologies:

- **Academic return on investment (A-ROI).** A-ROI seeks to quantify the total learning impact (student learning gains multiplied by the number of students helped) per dollar spent. A-ROI is an ideal form of cost effectiveness measurement, but is not practical to use in all situations. The following two types of cost-effectiveness measures could provide substitutes, if A-ROI calculations are not possible.

- **Per-unit costs.** The budgets for routine and operational services, as well as programmatic elements that impact students directly, can be broken down into per-unit costs (e.g., cost per student served, cost per teacher impacted).[4] (Methods for calculating per-unit costs are discussed in greater detail in Best Practice in School Budgeting, 3A Applying Cost Analysis to the Budget Process.) While the cost per student served or teachers impacted is an imprecise measure of effectiveness, per unit costs still represent an improvement for decision-support over aggregate expenditure figures when A-ROI information is unavailable.

- **Performance measures.** A performance measure provides information or data to help understand or make decisions on a particular topic or issue. Performances measures can be used to track how much of a service was "produced" (e.g., number of students served), assess the efficiency of how well a service was executed (students served per $), and evaluate to the extent that anyone is better off (learning gain). Measures can also be used to track environmental conditions that help districts understand overall challenges or opportunities. It is rare that a single measure will provide sufficient information to base a decision on. Districts are encouraged to track data on a variety of factors or conditions related to a specific program or programmatic element to best understand the situation, obtain necessary feedback, and ultimately inform decision making. Most districts already track performance data as a component of good management. However, from GFOA's experiences, a more limited number have organized efforts to track, share, and use performance measures district-wide in a way that provides sustained benefits. Districts that have been successful with performance measures have approached the topic in a variety of ways. However, most include common themes or principles such as 1) having the support of top executives, 2) developing a culture that asks tough questions and relies on data to back up claims and 3) develops a common sense approach to measurement that balances both the added value of having performance data with the costs of collecting and storing the data. The use of technology, however, can assist in reducing the administrative burden. Performance management systems or dashboards can be valuable tools used throughout the organization to help track, store, analyze, and display information to relevant audiences.

II. Finding Resources to Pay for the Instructional Priorities

Background. After analyzing the cost of its programmatic elements and/or instructional priorities, a district will often find it does not have sufficient resources to fund all current and proposed items. Given the primacy of the instructional priorities, a district must find a way to pay for them. There are three basic ways in which a district might find resources:

- **Revenues.** Though raising taxes may be an unrealistic option for many districts, districts should still consider how their revenue structure could support funding for the instructional priorities.

- **Sunset programs.** The district could discontinue certain services and redirect the funding to the instructional priorities.

- **Find efficiencies.** The district could find ways to perform existing services for a lower cost and direct the savings to the instructional priorities.

Recommendation. Districts should consider all three options described above for paying for the instructional priorities.

Revenues. All districts should start by conducting an analysis of their current revenue sources, including a three- to five-year forecast, in order to get a sense of the revenues that are available to fund the instructional priorities. Districts might also consider options for raising new revenues. Districts should adopt revenue policies that provide guidance on the acceptable features of new revenue sources and the proper role of one-time versus ongoing revenues to guide its search for new revenues.[5] For districts that fund the acquisition of capital assets with current revenues, those districts might also consider adopting a debt policy to guide the use of debt to fund capital facilities. This could help optimize the use of debt versus current revenues to fund capital expenditures, thereby freeing up current revenues to fund instructional priorities.

Sunset programs. A district should actively seek to identify and discontinue services that are not aligned with its instructional priorities or that are not cost-effective. An inventory of programmatic elements is the ideal way to systematically look for services that could be eliminated. In the absence of good cost-effectiveness data a "strategic abandonment tool" may be utilized to help districts with the review and sunset process.[6]

A district should ensure that the programmatic element review and sunset process is transparent, especially the rationale for sunsetting a programmatic element. It should also make sure that all costs associated with the programmatic element are eliminated and/or reallocated to another programmatic element. In the case of personnel, accommodations should be made to the greatest extent possible, including transfer to available positions elsewhere in the district. Districts should also identify a clear timeline for reviewing and, where necessary, sunsetting programs. This can improve stakeholder support.

Find efficiencies. All districts should actively investigate possibilities for providing existing services more efficiently. Resources are available to help districts identify top saving opportunities.[7] Districts should start by conducting a high-level screening of these ideas to quickly identify those that may have potential. They should then undertake a more detailed feasibility assessment to get a better sense of the financial benefit, the impact on student achievement (if any), the political feasibility, and the certainty of the financial gain relative to the complexity of implementing the idea. A broad cross-section of the district's management should be involved in evaluating the ideas.

III. Weighing Trade-Offs

Background. After searching for resources to pay for the instructional priorities, a district must weigh them against the identified resource opportunities. Does the benefit available from the instructional priorities justify the cost to the organization to raise taxes, discontinue other programs, or change the way some services are provided? The district's budget principles are the starting point for weighing these trade-offs because they describe the spirit that will guide decision making (for more information on this topic, see: Best Practice in School Budgeting, 1B — Develop Principles and Policies to Guide the Budget Process).

The district's decision makers should review and reaffirm the policies and principles before weighing the trade-offs. Using the principles as a touchstone, a district should develop a decision-making process that suits its unique culture and organizational structure.

Recommendation. Districts should use a "structured judgment" approach for weighing trade-offs, wherein the options under consideration (e.g., cutting a program, providing a program in a new way, implementing an

entirely new program) are rated against various criteria. Many different rating approaches can work (e.g., forced ranking, weighted scorings), but any system should include the following features:

- **Transparent criteria.** Clearly define the criteria that will be used to conduct the evaluation so that stakeholders understand what the options will be weighed against. The primary criteria should be the potential impact on the district's goals and consistency with the instructional priorities. Other criteria might include:

  - **Scalability.** Can the activity start small and be easily scaled up if it proves successful? This is especially important for new or unproven ideas.

  - **Reversibility.** If the expected benefit does not occur, can the decision be easily changed, or are there significant sunk costs? Options that have large sunk or fixed costs may be less attractive.

  - **Certainty of benefits.** How likely are the expected benefits to occur? A risky course of action might be a lower priority than a more certain one.

  - **Ability to implement.** Does the district have the time, people, skills, and other resources necessary to successfully implement the change required?

- **Transparent scoring.** Those performing the evaluation should be required to provide a written or at least verbal justification of their evaluation scores. Requiring judges to provide justifications may increase the consistency of their scoring and help move the process away from intuition and towards analysis.[8] Documentation makes the process more transparent and may also help increase the overall quality by making the participants more conscious of their decision-making approaches.[9]

- **Use of Data.** Very high scores for any option should require some form of evidence to support the score.

IV. Overcoming Constraints on Change

Background. Making trade-offs often suggests new patterns of spending, but some forces in a district may favor retaining past patterns of spending and constrain change. Examples of such forces include:

- **Categorical funding limitations.** Categorical funding sources such as Title I are often seen as highly constrained in their use, thus precluding the possibility of re-investing these funds in different types of activities.

- **Legal mandates.** The district may be subject to certain legal mandates that are presumed to require specific spending patterns, such as class size maximum, maintenance of effort, targeted or school wide use of Title I funds, special education services related to Individualized Education Program (IEP), or Section 504 requirements.

- **Organizational culture.** The culture of the district may possess a natural resistance to change.

- **Contractual or practical limitations on personnel transfer and reassignment.** Labor contracts or management issues may pose an obstacle to reassigning personnel.

Recommendation. Districts should consciously recognize that it is common to overestimate (sometimes drastically) the level of constraint they are subject to.[10] The district should commit to investing the time to figuring out how to overcome these barriers and assesses possible solutions, such as:

- **Determine whether the constraint is real.** Some constraints are less restrictive in reality than they are imagined to be. For example, a legal mandate may not require the exact type of expenditure a district is making or a labor contract may not actually have provisions that restrict a certain course of action.

- **Seek waivers.** The district may be able to obtain a waiver or exemption from a particular constraint. For example, when trying to use categorical funds differently, a district could write a letter to the funder stating how it wants to use the money and why the district believes it is within guidelines. The district should also request a written response addressing correct procedure.

- **Get legal advice.** Ambiguity in regulations does not necessarily mean that something cannot be done. A district should seek legal advice or clarification from regulatory body to help understand how it can work within laws and regulations while still developing a budget that does the most possible to improve student achievement.

- **Organizational change management.** The district can work with individuals who are resistant to change to understand and address their concerns.

Endnotes

1 An instructional priority is an overall approach for overcoming the challenges the district faces and achieving its goal. See Best Practice in School Budgeting, 2C – Research and Develop Potential Instructional Priorities.

2 Wildavsky describes how incremental line-item budgeting successfully accommodates different policy objectives, along with other reasons for its persistence in public financial management: See Aaron Wildavsky. "A Budget for All Seasons? Why the Traditional Budget Lasts." *Public Administration Review* Vol. 38, No. 6 (Nov. - Dec., 1978), pp. 501-509.

3 A programmatic element is similar to what is commonly termed a "program" in public budgeting literature (i.e., "a set of activities with a common goal"), but is intended to be a little less precise in its application because GFOA did not wish to describe "program budgeting" as necessarily being a best practice for school districts given that the state-mandated charts of accounts and reporting requirements might make development of a true "program" budget very difficult for a school district. Instead, school districts should seek to go beyond analyzing and budgeting just by objects-of-expenditure and that school districts impart a programmatic perspective into their budget, even if the analysis does not fully comply with the literature's definition of a "program." Note: the definition of a program is taken from Robert Bland and Irene Rubin, *Budgeting: A Guide for Local Governments* (Washington, D.C.: ICMA, 1997).

4 The concept of per-unit costs in education is taken from Marguerite Roza, "Now is a Great Time to Consider the Per-Unit Cost of Everything in Education" in *Stretching the School Dollar*, ed. Frederick M. Hess and Eric Osberg (Cambridge, MA: Harvard Education Press, 2011).

5 See Shayne Kavanagh, *Financial Policies* (Chicago: Government Finance Officers Association, 2012).

6 Strategic abandonment tool taken from Hess, who adapted it from Heliodoro Sanchez, *Strategic Abandonment Tool* (Houston: Center for Reform of School Systems, 2012), http://www.crss.org/tll_files/Documents?Strategic%20Abandonment%20Tool.pdf.

7 In *Spending Money Wisely*, the authors detail the top 10 saving opportunities for school districts and provide ideas for over 50 more. Please see Nathan Levenson, Karla Baehr, James C. Smith, Claire Sullivan, *Spending Money Wisely: Getting the Most from School District Budgets* (Boston: District Management Council, 2014). The book is also available for free online.

8 Thomas R. Stewart discusses research in forecasting science that shows that requiring expert judges to justify their opinion led to greater consistency and toward a more analytic process. See Thomas R. Stewart, "Improving Reliability of Judgmental Forecasts" in *Principles of Forecasting,* ed. J. Scott Armstrong (Boston: Kluwer Academic Publishers, 2001).

9 Forecasting science research describes the value of documenting how forecasts are made when expert judgment is a primary input into the forecast (as opposed to a forecast based solely on a quantitative statistical model, for example). See for example Derek Bunn and George Wright, "Interaction of Judgmental and Statistical Forecasting Methods: Issues and Analysis," *Management Science*, 37, no. 5 (May 1991): 501-518.

10 Frederick M. Hess, *Cage-Busting Leadership* (Cambridge, MA: Harvard Education Press, 2013).