East Side Union High School District
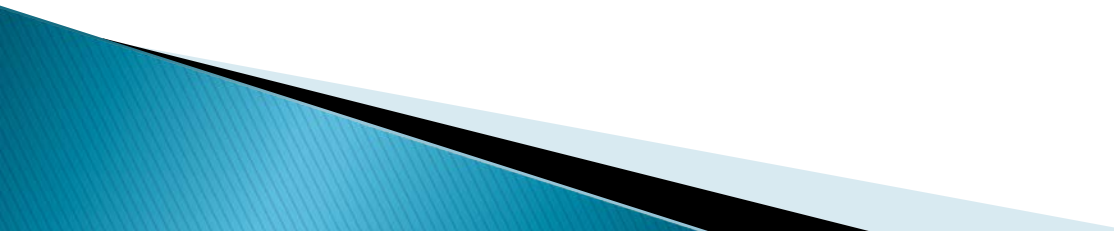
INTRODUCTION TO PRIORITY-BASED BUDGET BUDGETING FOR ESUHSD

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Associate Superintendent for Business and Operations

Traditional Approach – Incremental Budgeting

▸ The Current year's budget becomes the basis for the next year's spending plan, and the majority of the organization's analytical and political attention focuses on how to modify this year's spending plan based on revenues anticipated in the next year;

Incremental Budgeting – Positive vs. Negative

- ## Positive
  - Incremental works well during times of stable expenditure and revenue growth;

- ## Negative
  - However, doesn't perform well when trying to reprioritize and/or restore competing programs and services;
  - Doesn't perform well from upward cost pressures from health care, salary demands, and persistent structural imbalances;
  - The Incremental Budgeting System does not effectively align resources with evolving strategic priorities
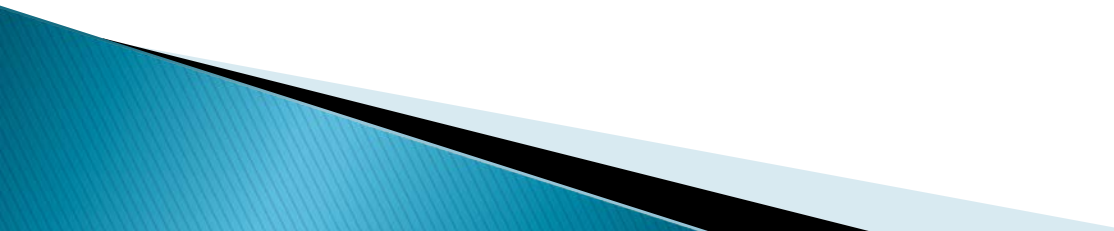
Introducing "Priority-based Budgeting"

What is it?

The philosophy of priority-driven budgeting is that resources should be allocated according to how effectively a program or service achieves the goals and objectives that are of greatest value to the community
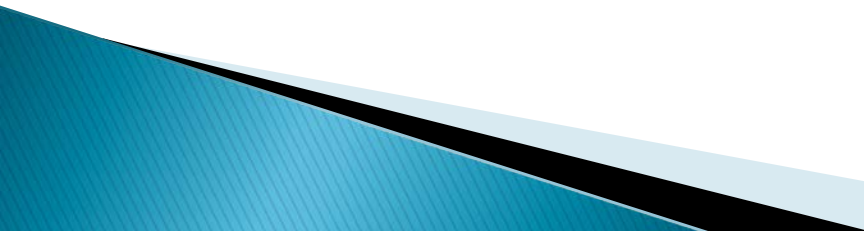
Currently Implemented in

- City of San Jose
- City of Walnut Creek
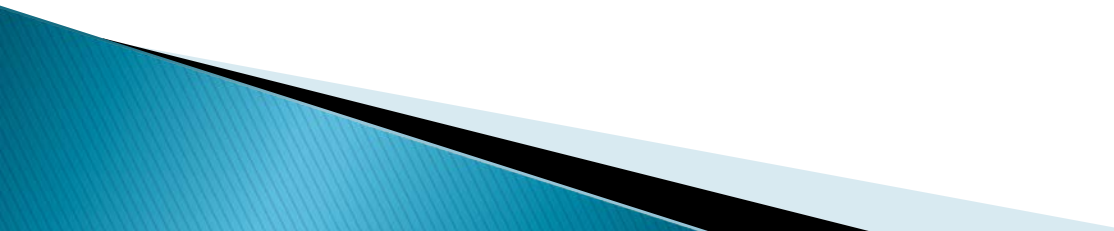- Portland Public Schools
- San Diego Unified School District

Philosophy of Priority-Driven Budgeting

▸ Prioritize Services
▸ Do the Important Things Well
▸ Question Past Patterns of Spending
▸ Spend Within the Organizations Means
▸ Know the true Cost of Doing Business
▸ Provide Transparency of Community Priorities
▸ Provide Transparency of Service Impact
▸ Demand Accountability for Results

Priority-based Budgeting Process Design Questions

- What is the scope of priority-driven budgeting? What are the fundamental objectives of the process? What funds and revenues are included?

- How and where will Board Members, the public, and staff be engaged in the process?

- What is the decision-unit to be evaluated for alignment with the organization's strategic priorities? School sites, departments, programs, etc.?

Priority-based Budgeting Process Design Questions
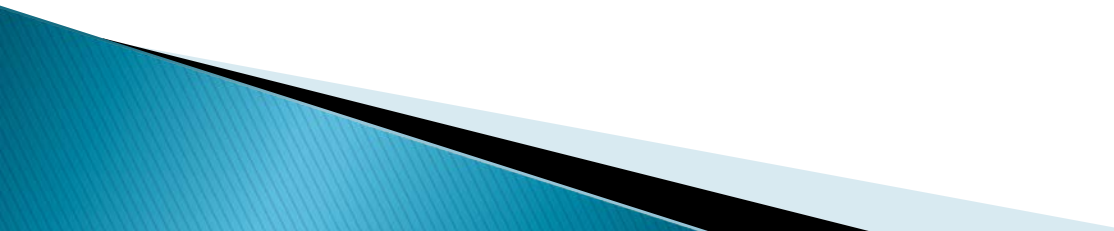
- How will support services be handled?
- How will decision-units be scored, and who will score them? The scoring mechanism and process is key in implementing priority-driven budgeting successfully.
- What is the role of priority-driven budgeting in the final budget decision? What method will be used to allocate resources to programs?

Definition of Terms

<u>Offers</u> are customized service and/or instructional delivery packages prepared by schools sites or departments (including cross-functional teams) to achieve one or more priority results;

<u>Programs</u> are a set of related activities intended to produce a desired result;

<u>Owners</u> are the Administrators of programs who are responsible for accountability and ensuring that the desired results are met;

Steps in the Priority-Driven Budget Process

- **Step 1** – Identify Available Resources – Instead of having the district just identify the amount of resources "needed" for the next fiscal year, is will first clearly identify the amount of resources as well as one-time initiatives and capital expenses

  Intended Result – Adopt a "spend within your means" approach – meaning there is a common understanding of the amount of resources available and that there is a clearly established limit on how much can be budgeted for the upcoming fiscal year.

- **Step 2** – Identify Priorities – Should be based on the district's stated strategic priorities.

  Intended Result – A set of priorities expressed in terms of measurable results that are of value to the public and widely agreed to be legitimate by the Governing board, staff, and the public.

Steps in the Priority-Driven Budget Process

- **Step 3 – Define Your Priority Results More Precisely** – Determine whether some results are more important than others. Develop a ranking exercise to allow BAC, Cabinet, and Governing Board to indicate the relative value of one result versus another (make it clear that the ranking process is not a budget allocation exercise). Which have the greatest relevance to parents and the community?

  Intended Result – Reveal the identity of our community and the objective meaning of what is relevant to it through the process of defining priority results.

- **Step 4 – Prepare Decision Units for Evaluation** – Evaluate Services Against the District's stated Priority Results. Two approaches to evaluations provide a review of offers and programs. Offers are customized packages of services prepared by school sites or departments to achieve one or more priority results. Offers allow schools to collaborate across sites and encourages outside-the-box thinking. A program is a set of related activities intended to produce a desired result. The "program" method allows the district to inventory the programs offered and compare to the priority results

  Intended Result – Prepare discrete decision units that produce a clear result. Evaluate the decision units against each other .

Steps in the Priority-Driven Budget Process

- **Step 5 – Score Decision Units Against Priority Results** – Once priority results have been identified and more precisely defined in regard to what the results mean, a process must be developed to objectively evaluate how the program or offer achieves or influences the priority results. Scoring offers and programs and possibly allowing additional factors including mandates, etc.

  Intended Result – Each decision unit (offer or program) should have a score that indicates its relevance to the stated priorities.

- **Step 6 – Compare Scores Between Offers or Programs**;

  Intended Result – The prioritized ranking of programs is a logical and well-understood product of a transparent process – no surprises;

Steps in the Priority-Driven Budget Process

- **Step 7 – Allocate Resources**

  Intended Result – Align resource allocation consistent with the results of priority-driven scoring;

- **Step 8 – Create accountability for Results, Efficiency, and Innovation** – The owners of the programs or offers being evaluated might over-promise or under-represent what they can do to accomplish the priority result;

  Intended Result – Make sure that those who received allocations are held accountable for producing the results that were promised. Find ways to directly encourage efficiency and innovation.

Priorities-based Budgeting in Action

Agency identifies its most important strategic priorities, and then ranks programs and services according to how well they align with the priorities. The agency then allocates funding in accordance with the ranking.

Starting Point – Board Approved Strategic Plan Establishes Priorities

For Example "a broad-based curriculum," "safe and secure environment," "class size," "reducing the achievement gap," among others.

A. Governing Board will narrow down and establish the list.

B. Decide which priorities are more important, giving more weight to some ideas than others.

C. School district staff will group programs or activities under those categories and put a price tag on them.

D. "Reducing the achievement gap," for instance, could include paying for Advanced Placement exams for students, summer school and credit recovery, which allows students to make up failed classes.
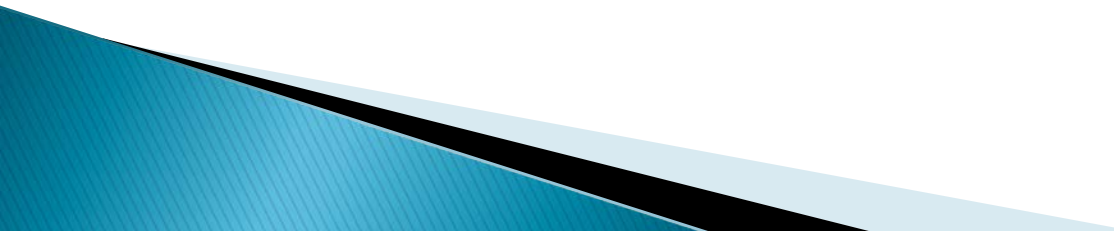
E. Develop a spending plan.

The Process of Reprioritization Simplified

- Start with the basics — things that are legally required or simply necessary to operate the schools (Defining Core Programs, Services, and FTEs)
- Then add the programs that fall under the priorities chosen by the school board. If it pencils out, then the Boards work is done.
- But if paying for everything the Board prizes is too much, the Board will have to go back and narrow its list of priorities. If there is money to spare, then more priorities can be funded.
- "The bottom line will be that any programs, services that aren't tied to the mandates or the priorities will either be flat-funded, unfunded, or have a percentage of funding repurposed to higher level priorities.

Government Finance Officers Association States

"If you already have a strategic plan that identifies community priorities, you may be able to use it as a launching pad for priority-driven budgeting. Elected officials will likely be interested in a budget system that promises to decisively connect resource use to their priorities. In fact, some officials might be frustrated with an incremental budget system that doesn't effectively align resources with evolving strategic priorities"

Next Steps

- ## **December (BAC Meets)**
  - ◦ Review Board Approved Strategic Priorities;
  - ◦ Review Program Inventory which encompasses the full breadth of programs provided by the district and there (direct & indirect)costs;
  - ◦ Owners (i.e. Site/Departmental Administrators) assign scores to programs and offers based on a self-assessment process against stated priorities or just an individual priority (mandates may score higher);
  - ◦ BAC will review the self-assessment scores for programs and offers against the result being evaluated and recommend score adjustments accordingly;
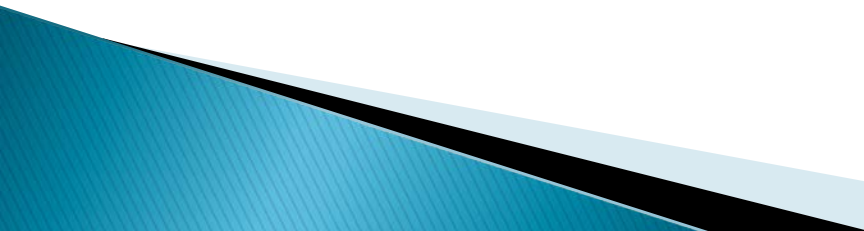
Next Steps

- ## January (Cabinet Meets)
  - Cabinet will review the self-assessment scores for programs and offers against the result being evaluated and recommend score adjustments accordingly;
  - Owners will have the opportunity to present offers for consideration and have them scored;
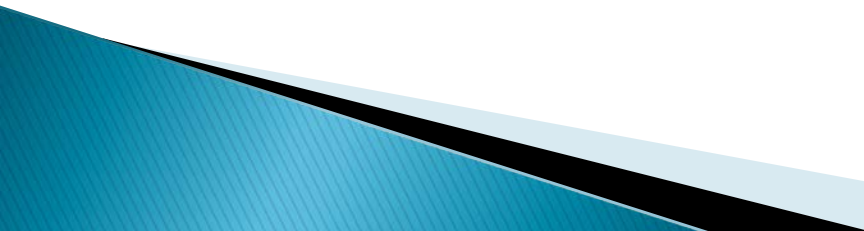
- ## January (Governing Board)
  - Question and Review Assigned Scores for Programs and Offers;
  - Review Evidence that Supports the Scores;
  - Confirm or recommend changes in the scores based on the evidence presented and their belief in the relative influence that program or offer has on the priority results it has been evaluated against;

Next Steps Cont.

- February Board Meeting – Present Final recommendation list of top-to-bottom scoring results for all programs and offers;
- March – June – Allocate Resources to offers and programs (Methodology for allocation TBD);

*Owners of programs or offers being evaluated might over-promise or over-represent what they can do to accomplish the priority result so ensure that accountability metrics are designed into the process

Allocation Methodologies

▸ Allocate based on historical patterns;

▸ Allocate based on a priority's relative weight, if weights are assigned;

▸ Allocate based on relative rankings of priorities from high to low with programs and offers above the line receiving funding or increased funding while those below are subject to flat funding, discontinuance, or reallocation;

▸ Allocate by placing all programs and offers into tiers of priority (e.g. quartiles) and then allocate by tier (i.e. Priority tier 1, 2 , 3 ,4) – Lowest Tiered Programs or offers would be subject to funding reallocation, flat-funding, or discontinuance;

Questions or Comments