Funding Approach for Strategic Budget Prioritization

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Background

After years of State revenue shortfalls resulting from the recent recession, California school districts are beginning to feel the effects of an improved economy and State budget. The majority of school districts are experiencing a fiscal renaissance whereby improved State revenues are beginning to filter into school districts as part of the Governor's Local Control Funding Formula. It is anticipated that the East Side Union High School District's budget will improve and face **competing demands** in how new funding will be allocated and for what purpose. The district's budget has been cut by over $50 million since FY 2008-09 resulting in hundreds of layoffs, staffing and program reductions.

Background (2)

- As designed, the prioritization process can be used to both inform the level and composition for allocating new revenues and optimize the implementation of budgets as conditions change

- ESUHSD is concerned that increases in spending that are not aligned with the Board or the State's strategic Priorities may lead to sub-optimal budgetary decisions over time – with lower return and lower long-term value for achieving stated strategic priorities

- The analytical results of this process will enable better-informed decisions on the level and composition for prioritizing new funding -- but insights from this new process may or may not lead to large changes in the level of funding

- ESUHSD will strive to use this new process to balance funding needs, ensure strategic alignment with priorities, and ensure that the district spends within its means

- The current system of incremental budgeting is workable, however, it is not an optimal approach when budgeting strategically

Current Approach to Budgeting

- The district's current approach to budgeting is incremental where the current year's budget becomes the basis for the next year's spending plan, and the majority of the district's analytical and political attention focuses on how to modify this year's spending plan based on revenues anticipated in the next year:

Not Business as Usual

  ◦ **As revenues begin to flow back into the district after years of revenue declines, layoffs, and program reductions, incremental budgeting does not provide a systematic way to prioritize or strategically align funding with current and evolving priorities;**

PURPOSE

- In planning for 2014-15 budget development, ESUHSD is introducing a **district wide method for ensuring strategic budget alignment and prioritization**

Why?

The district currently lacks a comprehensive strategy in which to strategically align the budget and prioritize new funding to address the many competing demands. A systematic, strategic-based method for aligning and prioritizing new funding is required to ensure that district funding allocations are aligned with strategic priorities.

The **purpose of today's presentation**:
- Provide an overview of the district's proposed process and methodology for strategic budget alignment and prioritization of new funds
- Obtain feedback on the methodology before we begin budget development

What are "Strategic Priorities"

- High-level and over-arching priority objectives that the organization have identified by priority in order to align funding

- Some of the priorities remain consistent over time while others are subject to continual reevaluation

- Systematic and Comprehensive

- Distinguished from (i.e. "Priorities" are not...)
  ◦ Vision or Mission Statements
  ◦ Organizational Values
    • **How** we want to achieve our results
  ◦ "**Marketing**" statements
    • Look and feel of the community
  ◦ Specific short-term, projects, goals or initiatives

STEPS to SUCCESS – Budget Alignment and Strategic Prioritization

1. *Determine Strategic Priorities*
   - Accurate prioritization of programs and services, reflecting the district's stated priorities, depends on the comprehensive identification of the Priorities it is obligated to achieve
2. *Clarify Priority Definitions*
   - Precision in defining priority results depends on the articulation of the cause and effect relationship between stated priorities and funding objectives
   - Using clearly defined "*Priority Definitions*", detailing the factors that influence the way funding objectives are determined, the organization can minimize subjectivity in the process of linking priorities with funding
3. *Identify Programs and Services above Core*
   - Comparing individual programs and services and how they relate to the stated priorities allows for better strategic alignment of funding and resources
4. *Value Programs and Services Against Strategic Priority Attributes*
   - With the right Priorities that are clearly defined, the organization can more accurately "value" a program and/or service relative to its influence on achieving Priority *Results*
5. *Allocate (Non-Core) Funding Based on Priority Results*
   Using *"Program Evaluation Scorecard Tool"*

The Process of Strategic Prioritization

Prioritized through statutory and/or bargaining requirements, not through new prioritization process

Prioritized through new prioritization process

"Core" Sustain Operations and meet governmental statutory requirements

Allocate funds in existing staffing, programs, and services to maintain operational performance and capability and to meet governmental requirements

Program and/or Service Expansion and "Non-Core" Operational

Proposed programs and/or services that "increase" the district's budget, i.e., adds capacity or new capabilities, or that increases operational efficiency or productivity.

Funded with remaining allocations that the district has budgeted

The district estimates that between 50 – 60 percent of the district's new funding for FY 2014–15 would be earmarked to "sustain core" and any remaining funding would be for program service expansion and "non-core" operational

Step 1 – Identify Stated "Strategic Priority Funding Buckets"

Prioritized through statutory or bargaining requirements

Prioritized through new prioritization process

Priority 1 – Sustaining Core;
Priority 2 – New Federal and State Mandates;
Priority 3 – LCFF (Proportionality) Supplemental/Concentration Funding

Priority 4 – LCAP 8 State Goals and Board Stated Strategic Priorities;
Priority 5 – Program and Service Restoration;

Program Commitment – Programs implemented to meet the stated priorities must show progress over a 3 year period or could be subject to reallocation or elimination

Funded first – Priorities 1,2, and 3

Priorities 4,5 are funded with remaining available funding that the agency has budgeted

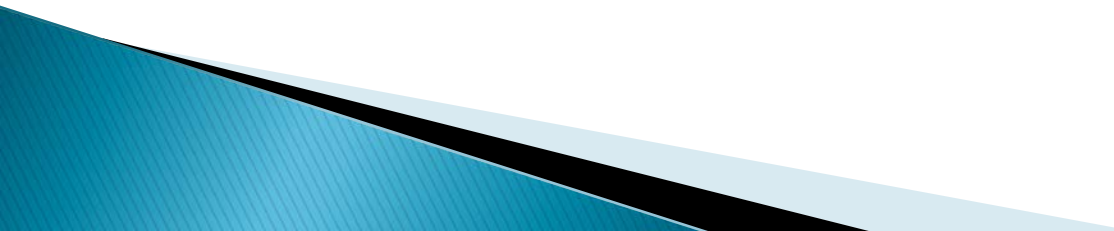# Step 2 – Clarifying Priority Funding Buckets?
How will the projects in each category be treated?

	(Priority 1) Sustaining Core	(Priority 2) Statutory State and Federal Mandates	(Priority 3) LCFF – Supplemental/Concentration Proportionality	(Priority 4) State and Board Priorities	(Priority 5) Program and/or Service Restoration
Requirement for Funding	Compliance	Compliance	Compliance	Policy Commitment	District Priority
Allocation Drivers	Projects and or services in this category are essential to the district meeting its core mission and represents expenditures related to current bargained agreements and to deliver basic education program	Projects and/or services in this category are not only essential but the district is statutorily required to provide such service or program	Projects and/or services in this category are essential to the district in meeting new state requirements for LCFF Proportionality	Projects and/or services related to this category are highly valuable in meeting State and Board priorities and are subject to continuing evaluation for funding	Projects and/or services related to this category are valuable to increasing operational efficiencies and effectiveness and are subject to discretion and funding availability
Discretion on whether or not to allocate funding	Little Discretion	No Discretion	No Discretion	Some Discretion	Discretion
Discretion in timing of funding allocation	Very Little discretion in timing	No discretion in timing	No discretion in timing	Some discretion in timing	Full discretion in timing
Examples of funding allocations	i.e. Salaries and Benefits, Step and Column, Inflation, etc.	I.e. Routine Restricted Maintenance, etc.	i.e. LCFF – Proportionality for unduplicated students	i.e. Current and newly proposed programs and/or services above core	i.e. Restoring bookroom clerks, librarians, and etc.

Definition of "CORE"

- "CORE" refers to the total costs of sustaining existing staffing, programs, and services to maintain operational performance and capability of delivering an educational program to students

Steps to Determining "Core"

- Step 1 – Produce an FTE Report by school site from Position Control System;
- Step 2 – Determine funding sources for each position;
- Step 3 – Compare Teacher FTE to CBEDs enrollment by School site;
- Step 4 – Determine similarities and differences across all sites;

Step 3 – Identifying Programs and Services Above Core

- To determine if there are site-based "Programs and Services above Core", we look for "*differences*" in staffing and resources across sites to assist us in determining if and why differences exist. Once a difference has been identified, we ask the following questions:

  - "*Who*" is benefiting from the program and/or activity?
    - Does it benefit a specific demographic group or population?

  - "*Where*" is the service being offered?
    - Does it impact a specific area, location or environment

  - "**Why**" does the difference exist?
    - Is senior management aware of the difference based on certain factors such as (enrollment, etc.)

  - "*How*" is it funded? – Is there someone paying for it?
    - Are there revenue sources outside of the general fund associated directly with the program and/or activity?

Step 4 – Valuing New and Ongoing Programs Against Strategic Funding Priority Attributes

- *District Strategic Priorities*

- *Basic Program Attributes*

(Priority 1) Sustaining Core

(Priority 2) Statutory State and Federal Mandates

(Priority 3)LCFF – Supplemental/Concentration Proportionality

(Priority 4)State and Board Priorities

(Priority 5)Program and/or Service Restoration

Site/District Mandated Program/Service;

Total # of Students Served;

Change in Demand for Program;

Program Delivery Costs;

Aligns with Board Priorities;

Simple Scoring Scale – *"Degree"* of Relevance to a Priority Result

4 = Program has an *essential* or *critical* role in achieving Result

3 = Program has a *strong* influence on achieving Result

> *"High Degree" of Relevance*

2 = Program has *some* degree of influence on achieving Result

1 = Program has *minimal* *(but some)* influence on achieving Result

> *"Lower Degree" of Relevance (still a clear connection)*

0 = Program has *no* influence on achieving Result

> *No Clear Connection*

Basic Program Attributes:
Mandated to Provide Program

- *Programs and/or services that are mandated by another level of government (i.e. federal, state or county) will receive a higher score for this attribute compared to programs that are not mandated.*

- The grading criterion established to score programs, on a 1 to 4 scale is as follows:
  - 4 = Required by Federal or State legislation
  - 3 = Required by Code, ordinance, resolution or policy *OR* to fulfill a contractual agreement
  - 2 = Recommended by national professional organization to meet published standards or as a best practice
  - 1 = No requirement or mandate exists

Basic Program Attributes:
Total # of Students Served by the Program

- Programs or services that serve a high number of students shall receive a higher score in comparison to those which serve fewer students.

- The grading criterion established to score programs, on a 1 to 4 scale is as follows:
  - 4 = Serves 300 or more students;
  - 3 = Serves Between 150 – 299 students;
  - 2 = Serves Between 61 – 149 Students;
  - 1 = Serves Less Than 60 Students;

Basic Program Attributes:
Change in Demand for the Program

- *Programs demonstrating an increase in demand or utilization will receive a higher score for this attribute compared to programs that show no growth in demand for the program or service.*

- The grading criterion established to score programs, on a 1 to 4 scale is as follows:

  - 4 = Program experiencing a *SUBSTANTIAL* increase in demand of 25% or more

  - 3 = Program experiencing a *SIGNIFICANT* increase in demand of 15% to 24%

  - 2 = Program experiencing a *MODEST* increase in demand of 5% to 14%

  - 1 = Program experiencing a *MINIMAL* or no increase in demand of 0% to 4%

Basic Program Attributes: Costs of Program Delivery

▸ *Programs that demonstrate the ability to "supplement themselves" through Federal or private grants or other specifically dedicated revenues will receive a higher score for this attribute compared to programs that are totally reliant on the unrestricted general fund.*

▸ The grading criterion established to score programs, on a 1 to 4 scale is as follows:

  ◦ 4 = The costs to provide the program or service is covered by more than 80% outside of the general fund;

  ◦ 3 = The costs to provide the program or service is covered between 50% – 79% outside of the general fund;

  ◦ 2 = The costs to provide the program or service is covered between 25% – 49% outside of the general fund;

  ◦ 1 = The costs to provide the program or service is covered between 0 – 24% outside of the general

Basic Program Attributes:
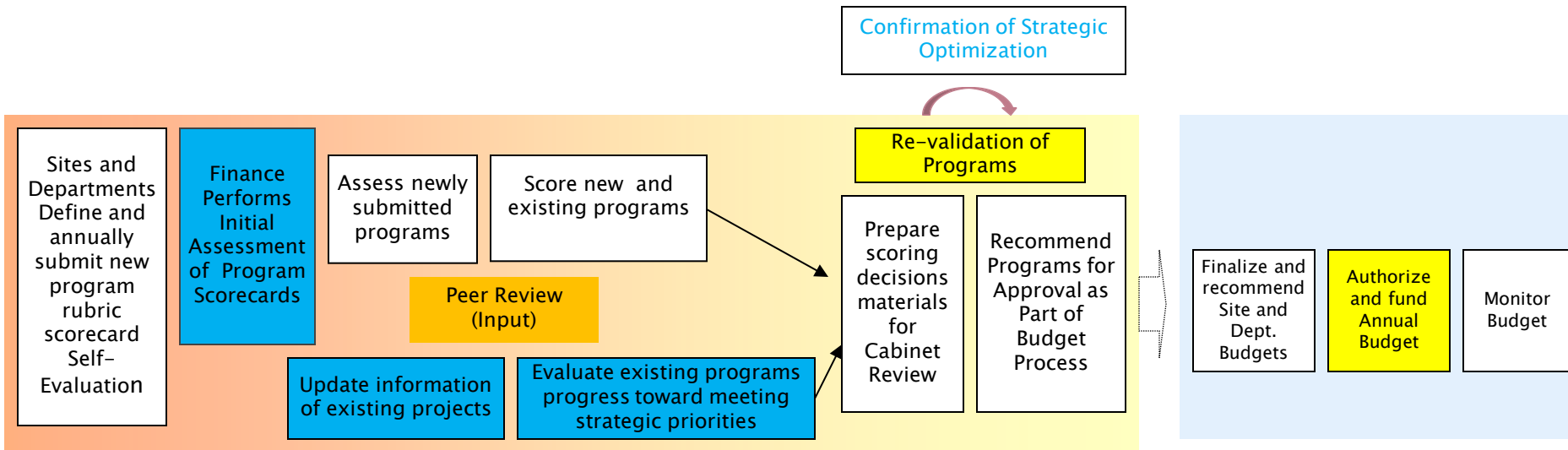## Influence on the Board's Stated Priorities

- The Board has established five Board Priorities as a result of strategic planning as follows: 1) Increasing the Graduation Rate; 2) Reducing the Drop Out Rate; 3) Increasing the A-G completion Rate; 4) Increasing College and Career Readiness (5 C's); 5) Closing the Achievement Gap;
- Programs that demonstrate an ability to influence the Board's stated Priorities will receive a higher score as deemed by a peer review group;
- The grading criterion established to score programs, on a 0 to 4 scale is as follows:
  - 4 = The program or service is essential to achieving the Priority;
  - 3 = The program or service has a strong and direct influence on the Priority;
  - 2 = The program or service has a moderate influence on the Priority;
  - 1 = The program or service has very little influence on the priority;
  - 0 = The program or service has no discernible influence on the priority;

Step 5 - Allocating (Non-Core) Funding Based on Influence on Priority Results

- Ensure Optimal Allocation of funding (non-core) programs and services based on the programs "Value" influence on strategic priorities utilizing a "Program Evaluation Scorecard Rubric and Peer Review Process"

    See Sample Scorecard Rubric Handout

Overview of the Process

Confirmation of Strategic Optimization

Re-validation of Programs

| Sites and Departments Define and annually submit new program rubric scorecard Self-Evaluation | Finance Performs Initial Assessment of Program Scorecards | Assess newly submitted programs | Score new and existing programs | Prepare scoring decisions materials for Cabinet Review | Recommend Programs for Approval as Part of Budget Process |

Peer Review (Input)

Update information of existing projects

Evaluate existing programs progress toward meeting strategic priorities

| Finalize and recommend Site and Dept. Budgets | Authorize and fund Annual Budget | Monitor Budget |

A systematic district-level process will replace current sub-optimal process

Existing process (simplified)

Blue boxes: steps requiring executive action;   Orange box: Step involves peer review

Goals of Budget Alignment and Strategic Prioritization

Create a district-level process that:

- Furthers the Boards strategic priorities/objectives

- Ensures that available funding is prioritized to meet district wide priorities

- Optimizes the district's funding availability within budgetary constraints

- Ensures that budgetary decision-making is optimally-informed and supported by thorough analysis

- Provides transparency both internally and externally

- Enables efficient, timely decision making

- Enables the district to track the performance and measure the realized value from funding allocations

New programs will be proposed on a continual basis and existing program proposals will be refreshed based on a 3 year cycle based on there relative performance in achieving the desired priority results.

Questions and Comments