

BEST PRACTICES IN COMMUNITY COLLEGE BUDGETING

PRIORITIZE SPENDING TO ENACT THE STRATEGIES & ALLOCATE RESOURCES

4A – Prioritize Spending to Enact the Strategies

SUMMARY

Key Points:

- Before a college prioritizes its spending, it should identify its current expenditures and any potential new expenditures. The expenditures should, at a minimum, be expressed as budgetary units that place inputs (e.g., personnel, dollars) into categories that can be clearly associated with a service provided by the college.
- When prioritizing its spending, a college should first define the evaluation criteria it will use to prioritize program. Key evaluation criteria should include alignment of a program with the college's strategies and goals and cost-effectiveness of the program. Common methods to evaluate the cost-effectiveness include cost-effectiveness measures, per-unit cost, and performance measures.
- To successfully prioritize spending, a college should build support with stakeholders, evaluate the relative priority of new programs, and review existing programs with the objective to improve the performance or to discontinue the program in favor of other uses of the resources.

Related Award Program Criteria:

- Criterion 4.A.1: 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 Institutional 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 4.A.2: 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 optimizes resource use for maximizing student achievement is that all activities/services are evaluated for:

- Alignment with the college's strategies and goals
- Their effectiveness and cost-effectiveness relative to achieving the college's goals.

This Best Practice document describes:

- I. Prioritizing expenditures, including developing an inventory of the college's current and proposed programs and identifying the key criteria for prioritization.
- II. Additional special issues that colleges should address in the design of their prioritization process.
- III. In Appendix 1, methods to evaluate the cost-effectiveness of a program. Cost-effectiveness is a key evaluation criterion for prioritizing spending.

I. PRIORITIZING EXPENDITURES

Background. As a prerequisite to prioritization, a college should conduct an inventory of its current expenditures and also make sure it is fully aware of potential new expenditures that stakeholders may wish

to propose. Ideally, these expenditures will be articulated as a unit for decision making that brings together a set of related activities intended to produce a desired outcome for a defined student group or other clientele. This type of decision-making unit is often called a “program” in public budgeting.

However, in some cases, it may not be practical for a college to articulate its expenditures in this way, primarily due to state-mandated chart-of-account structures. Even in this case, a college should go beyond conventional object-of-expenditures (e.g., salaries, benefits, contractual services, etc.) for defining its outlays. At a minimum, a college should develop budgetary units that place inputs (e.g., personnel, dollars) into categories that can be clearly associated with some service provided by the college (referred to as a “programmatically element” in the GFOA Best Practices in Community College Budgeting). Examples of programmatic elements might be “assistance for remedial math students” or “advising students on college pathways.”

The particular design of a prioritization process should be customized to the college, but any prioritization process should begin with a clear definition of the evaluation criteria that will be used to prioritize programs. This allows all stakeholders to understand how programs will be prioritized.

Recommendation. The GFOA recommends that colleges make the following two evaluation criteria the lynchpins of the prioritization process:

- **Alignment of the program with the college’s strategies and goals.** One of the two most important criteria is the potential for a program to help the college carry out its strategies and achieve its goals. The college should first determine which of its goals, if any, are associated with a given program. It should then determine if the given program helps the college make progress toward achieving that goal. Finally, the evaluation should ask if the program fits into a coherent, coordinated approach to best achieve the goal, as has been articulated by the college’s strategies. In other words, a given program might help achieve the goal, while at the same time be inconsistent with other strategies the college is pursuing.
- **Cost-effectiveness of the program.** The second important evaluation criterion is the cost-effectiveness of the program. Colleges should always seek to obtain the best value for the dollar, especially in an environment of stagnant or declining resources. The cost-effectiveness of a program can be evaluated in a number of ways and Appendix 1 reviews some of the most important methods.

II. SPECIAL ISSUES IN PRIORITIZING PROGRAMS

Background. In addition to defining clear criteria for prioritizing programs, colleges will need to address other issues in order to successfully prioritize spending. These issues include building support with stakeholders for prioritization, prioritizing new programs versus existing programs, and reviewing existing programs with the objective of discontinuing spending that is not achieving results.

Recommendation. The GFOA recommends that colleges consider and address the following issues in the design and execution of the prioritization process.

- **Support of stakeholders.** The prioritization process should extend beyond the finance department and engage the major subunits (e.g., divisions/schools/departments) of the college. The subunits should not only have an important role in performing the prioritization, their input in developing the process should also be sought. Further, the prioritization process should not overemphasize financial metrics at the expense of student outcome metrics. Finally, the methods and results of the prioritization should be made as transparent as possible, including the reasons behind prioritization rankings or scorings. Such an approach not only will result in a more well-rounded perspective on prioritization, but also facilitates wider acceptance and support of the prioritization process by both business and academic leadership.
- **Evaluate the relative priority of new programs.** While existing services can be prioritized according to their proven cost-effectiveness or performance, new programs, by definition, will not have an established track record. The projected performance of a new program could be considered during prioritization, but performance projections are often over-optimistic and, not uncommonly,

severely over-optimistic.¹ Hence, new programs should also be evaluated on other factors as well, such as:

- *Alignment with the college's strategies.* The proposal should show how the new service will advance one or more of the college's strategies. Ideally, the need for a new program will have been documented in a formal planning process that complements the college's strategies.
- *Support in an outside research base.* The proposed program should be convincingly proven to work in other colleges or at least in other contexts that are relevant to the college.
- *An implementation plan.* Programs should have documentation of a solid implementation plan that shows, convincingly, how the new program will realize its promised benefits.
- *Scalability.* Programs should be able to start small, in a pilot or experimental format, and then be scaled up if the actual experience with the pilot is successful.
- *Reversibility.* If the new program doesn't work as expected, the college should be able to easily discontinue it with minimal disruption to other operations.
- **Review of underperforming programs.** In order to realize the best value from its available dollars, colleges should identify underperforming programs and either improve the performance of those programs or discontinue the program in favor of other uses of the resources. A college's existing program review process could be used to identify low and underperforming programs, assuming that the review process is sufficiently rigorous to provide information for budgetary decision making.

Even in the absence of a sufficient institutional program review process, the budget prioritization process should be able to identify programs that are of lower priority (either existing or proposed, new programs). Low-priority programs should be examined carefully to determine whether changes are possible that might move a program up the priority list, and how such an investment might rate against other possible uses of the funding. As important, however, is the possibility of discontinuing programs in order to free up resources for other purposes. Discontinuing programs will always be a challenge, especially in cases that affect full-time employees. A budget process that strives to create a culture in which finite resources are allocated in a manner that maximizes student achievement can help make a difficult decision somewhat easier. Also, including underperforming programs in the prioritization process will make the tradeoffs explicit – decision makers may find it more palatable to discontinue a program if the consequence is to free up resources to support a program that holds the promise of having a greater impact on student achievement.

Innovation Fund: An Innovative Way to Support New Ideas

One method to support new ideas and experiment with untried programs is to create an innovation fund within the broader budget framework. The size of such a fund should be established in the budget process based upon revenue and enrollment projections. Policies are necessary to guide fund usage, such as what constitutes a "new" program and explicit time limits for the duration of a pilot period.

There are several advantages to setting up an innovation fund for new programs. First, new programs will have fewer disadvantages when competing with existing programs for funding. The innovation fund also, by definition, sets the new program apart as a pilot or experiment, which should make implementation monitoring more practical. Finally, funding a program through an innovation fund reduces the obstacles of discontinuing the program should the program not work as intended.

Endnote

¹ See for example Tali Sharot, *The Optimism Bias* (New York: Vintage Books, 2012).

APPENDIX 1

COST-EFFECTIVENESS MEASURES

There are many ways to measure the cost-effectiveness of programs. The examples below, while not an exhaustive list, share the characteristics of being both systematic and providing a common denominator for making program-to-program comparisons.

Cost-effectiveness measure. Colleges should develop measures that compare the benefit of a service to the cost to provide that service. The benefits of a service/activity should be drawn from the college's direct experience with that activity. Where possible, the estimated costs should capture the full cost of the service/activity, including overhead costs and the costs of administrative support services. Ideally, the cost figures used will be consistent with the college's allocation model for overhead and support costs used for budgeting, but, in any case, the cost figures used should be consistently calculated across all cost/benefit measures.

For example, a college could calculate the financial cost-effectiveness of courses by comparing the cost of the course to the revenues generated from the course. Costs would include instructor compensation, plus relevant materials and overhead costs. Revenues would include tuition, fees, any state funding, and other funding received for the course. Colleges could also develop cost-effectiveness measures focused on student success. In this case, the college would need to identify intermediate student outcomes of its programs and then compare the data to the cost required to achieve those outcomes. For example, the college could compare the cost of a "boot camp" (i.e., a summer intensive session for developmental students) to retention rates of students who went through the program versus those that did not.

For various reasons, it may not always be possible to calculate a cost-effectiveness measure. Examples of situations where it may be impossible to calculate a cost/benefit ratio include:

- **New services or programs.** For new services and programs, the actual benefits the program will produce are unknown and it is usually too speculative to use projected benefits. However, any new program should be designed so that cost/benefit will be calculable at some future point. For new programs, evaluations of milestones on the way to the expected outcome may be effective interim measurements.
- **Sufficient data are not available.** In many cases, a college will lack the ideal data set for calculating cost/benefit. In these cases, the college should consider whether the existing data are at least sufficient to provide a material improvement in decision making versus no cost/benefit calculation at all and, if not, should develop a plan to develop the necessary data sources to calculate cost/benefit.
- **Very small services.** Cost/benefit will provide more decision-making value to higher cost services. The benefit from evaluating very low-cost services may not justify the effort required to calculate cost/benefit.

Per-unit costs. The budgets for routine business and operational services, as well as services that impact students directly, can be broken down into per-unit costs (e.g., cost per student served, cost per degree, and cost per credit hour). While number of students served (or other per-unit costs) is an imprecise measure of effectiveness, per-unit costs still represent a big improvement for decision-support over aggregate expenditure figures when cost/benefit information is not available.

Performance measures. A performance measurement is a quantified indicator of how much was accomplished (e.g., number of students served), how well a service performed, and/or the extent to which anyone (e.g., students or other clientele) is better off for having received the service.¹ Measures of how much was done are generally considered the least powerful, while measures of positive impact are the most powerful (these are also known as “outcome” measures). As an example of the latter, a service intended to accelerate remedial students through developmental material should be measured by the time it takes these students to complete developmental work, remain enrolled and, then, successfully complete mainstream classes in their chosen field of study.

Endnote

¹ Typology of measures taken from Mark Friedman, *Trying Hard is Not Good Enough: How to Produce Measurable Improvements for Customers and Communities* (Santa Fe, NM: FPSI Publishing, 2005).