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Fulfilling the Promise of LCFF:

*How a System-Strategy Return-on-Investment Approach
Can Transform Education Spending in California*

By Stephen Frank and Melissa Galvez

The Opportunity

California districts face a moment of great opportunity. They have made it through the first full year of the Local Control Funding Formula (LCFF), a new funding system that reinvests in public education and gives districts significant spending authority for the first time in 40 years. They patiently adjusted to evolving rules and regulations, spent countless hours soliciting community input, and put together Local Control Accountability Plans (LCAPs) in a mere six months. Now, districts are looking at their first LCAP update with the benefit of experience and many resources from technical assistance providers. They are also building the habits and skills that will underlie their strategic planning and budgeting for years to come.

The question is: Will the LCAP turn into just another compliance exercise? How can districts harness this opportunity to create a new kind of school system—one that is centered on a unified vision for student success, especially for the highest-need students, and directs its limited resources toward that vision?

“I’m signing a bill that is truly revolutionary. We are bringing government closer to the people, to the classroom where real decisions are made, and directing the money where the need and the challenge is greatest.”

—Jerry Brown, Governor of California

The Challenge

Over eight years, LCFF promises to return local districts' funding levels to that of 2007–2008, before the cuts of the Great Recession. But even at that level, California ranked 45th in the nation for per-pupil funding.ⁱ Many districts thus feel buffeted by pressure on all sides to use this infusion of funds to “reverse the cuts”—to increase teacher salaries across the board, rehire lost positions, and restore favored programs. LCFF's focus on supporting low-income, English-learner, and foster youth is also (with reason) pushing districts to add services and programs specifically targeted to these students.

Several organizations have studied what districts actually included in their 2014–2015 LCAPs. After a detailed analysis of 40 LCAPs and a shorter review of 100 more, The Education Trust–West found that “In general, most districts offer only modest innovation in the first year,” noting that they spent their funds to “shore up rising staffing costs, restore programs and personnel...preserve programs previously funded by categorical aid, and add one or two new programs for high-needs students.”ⁱⁱ The Legislative Analyst's Office looked at 50 LCAPs and found that districts most frequently planned to spend the money on professional development, expanding community engagement, and purchasing additional materials and technologies.ⁱⁱⁱ In part because of the way the form was designed, these reviewers and others also found that it was sometimes hard to make the connection between goals and activities, and to understand how the proposed investments would lead to success on a unified set of priorities.

The actions proposed in this year's LCAPs may certainly be beneficial, especially as districts seek to restore a sense of normalcy after deep cuts. But if all LCFF accomplishes is more “layering on”—undoing cuts and adding a few new services—then it is unlikely to fundamentally improve the way school districts serve students. As districts have always lamented, student achievement was not high before the big budget decreases, with 4th and 8th grade math and reading proficiency between 20 and 30 percent.^{iv} Why would we want to simply go back to the old ways? LCFF promised to give local school districts vast new freedom—to experiment, to tailor, to discard the ineffective and focus on the critical. School districts need the tools to free their own creativity, respond to stakeholders' input, and stay focused on a limited number of key goals.

System-Strategy Return on Investment: A New Way to Plan

In this next round of LCAP creation, California districts can experiment with a strategic planning concept we call *System-Strategy Return on Investment* (ROI). Widely used in the business world, ROI analysis compares the expected benefit (return) for the cost (investment) of a variety of potential actions. Recently, there has been growing interest in adapting this approach to education, sometimes called academic ROI.^v The formula, broadly, is:

$$\frac{(\text{Expected Return}) \times (\# \text{ of Students Helped})}{\$ \text{ Spent}}$$

But for many people, the term ROI conjures up images of cold and calculating businessmen making profit-driven decisions—exactly what you do *not* want in school district administrators. Schools must always be oriented toward the well-being and learning of children. So what place can *System-Strategy ROI* have in education?

What is “return” in the context of education?

Fundamentally, ROI is about improving the impact of limited resources. The kind of “returns” that you measure depend on the kind of impact you want to have. For example, on the LCAP, California districts must choose goals that relate to the state’s eight priority areas (or local priority areas), including student achievement, parental and student engagement, and access to a “broad course of study.” For each of these priority areas, districts must report progress on a set of performance metrics (also called “Expected Annual Measurable Outcomes”), such as performance on standardized tests, share of students that are college and career ready, student suspension rates, high school drop-out rates, and promotion of parent participation. These are all important indicators of the health of a school district—and if a district can improve any one of them, that is, in fact, its return. Where business people seek profit, school districts seek greater learning, engagement, and ultimately, improved life outcomes for students and their communities.

What is “investment”?

Again, here we typically think only of money. But school districts have many equally important resources at their disposal, including talent and time. Though even those can ultimately be tied to dollars, it is important to think of the value that each resource brings. Sometimes, “investing” in a student subgroup means ensuring they have access to a highly effective teacher or sufficient time in a difficult subject. School districts can also invest political capital in certain big changes—if changing teacher compensation systems or school-level flexibility is complex and contentious, but may ultimately be the best thing for students, districts should factor in that “cost” as part of their investment.

What is System-Strategy?

Many school districts already do some sort of ROI analysis when considering several programmatic options. For example, if District X wants to improve elementary literacy, it might study national research and local experience with several professional development programs, examine the expected costs of each program, and determine which seems likely to provide the greatest benefit per cost. How is *System-Strategy ROI* any different?

Most ROI analyses miss a big opportunity. On the one hand, it is beneficial to compare programs and initiatives—for example, when debating whether to invest in iPads or when comparing one after-school tutoring provider to another. Because as California districts receive supplemental and concentration grants for high-needs students, it can be tempting to think of the budget in terms of base services and “extras.” These quick win actions serve a purpose, but they’re not the whole game.

This typical use of ROI misses some of the biggest cost drivers in districts’ budgets and never addresses some of the fundamental resource issues that may actually be hampering long-term student success. For example, to address concerns about elementary literacy using a *System-Strategy ROI* lens, a district might look at how it can extend the reach of excellent literacy teachers within teacher teams, or help schools craft schedules that provide smaller groups and more individual attention in literacy. It could consider the ROI of different aspects of teacher compensation (such as paying teachers for taking on greater responsibility versus paying them for advanced degrees) or workforce management strategies (such as hiring and retention policies to find and keep excellent literacy teachers). These strategies don’t appear as line items on a typical budget and often involve input from multiple departments. But changes to these fundamental uses of people, time, and money may affect far more students more intensively—and help districts use their scarce dollars most effectively for student success.

System-Strategy ROI is perfectly adapted to LCFF. Like the LCAP, it asks school districts to start by identifying fundamental student and district needs, and asks not “Which program is better?” but “What resources will meet this need?” This means taking a step back from “what we’ve always done” and looking at the entire budget—newly freed from state control—in new ways.

How Can California Districts Try System-Strategy ROI?

One positive benefit that has already come from the first year of LCFF is that “administrators responsible for instruction and budget are collaborating more than ever before in a real effort to align budgets with academic plans,” according to The Education Trust–West.^{vi} This is critical for true strategic planning—those who understand the district’s academic needs must work closely with those who understand the district’s revenue and cost drivers. Assuming this process is in place, to do *System-Strategy ROI*, we recommend that districts follow these five steps:

1. **Identify the core need:** What fundamental student performance need are we focusing on, and what’s our theory of change for addressing it?
2. **Consider a broad range of investment options:** What investments (people, time, and money) do we currently make to meet this need, and what else could we do?
3. **Define ROI metrics and gather data:** What are the relative returns (costs weighted against benefits) on the set of current/potential options?
4. **Weigh investment options:** What other factors do we need to consider in order to select from among the options?
5. **Make investment decisions:** How can we free resources to do what we want to do?

Going through this process can be the catalyst for creating LCAPs that invest resources more strategically than ever before. For example, the LCAP itself asks districts to define the “identified need” linked to each stated goal. This prompts districts to look closely at their many data sources—quantitative and qualitative—in setting achievable goals aligned to the state-required metrics.

The second step, though, is the most innovative—and in some ways, the most exciting. It prompts school districts to take a hard look at what they’re currently doing to meet a particular need, as well as what they could do *instead*—not just in *addition*. That means considering a wide range of options, including those that:

- **Span departmental boundaries** (i.e., not just focusing on professional development sessions but considering changes to hiring, staffing, or retention policies)
- **Include structural costs and strategies** (i.e., compensation reform, student-teacher assignment policies, funding systems)
- **May not even exist in the district at present** but are considered promising practices elsewhere (i.e., school designs that extend the reach of excellent teachers through teacher teaming or use of technology with flexible grouping)

The link between the identified need and potential investments is the theory of action—in other words, the logical explanation for why a given investment will best address a given need. For example, a district might identify teacher quality as an issue, especially for high-need students. But why is teacher quality an issue? The district might believe that teachers need more training; instead of just adding more one-off professional development sessions, it should also consider policies to ensure teachers have enough collaborative planning time for continuous job-embedded learning, supported by a teacher leader or coach; or invest in better support for new teachers, more meaningful teacher evaluation and feedback structures, or policies to assign teachers to classes and student cohorts that play to their strengths. Or maybe the district needs to attract and keep more highly qualified teachers, in which case it could consider new hiring policies or compensation models that reward highly effective teachers and those who take on leadership positions. Any of these more fundamental changes might yield a higher ROI than the standard “add professional development” option.

Steps three through five are where the district consults research, weighs options, and looks at the big picture. To determine a rough ROI for each option, the district will need to gather research, national and local experience, and crucial internal data (such as teacher effectiveness scores), along with various cost measures. District decision-makers can then consider other factors, such as how the seeming best option interacts with other district priorities, how much of the investment is needed to achieve real improvements, and whether this is the right time for a chosen investment. Finally, the district might determine that the option with the highest ROI is still very costly, and it will need to consider trade-offs in other areas of the budget that may not be yielding results.

Though this process may sound daunting, it doesn't have to be. For districts with limited time and expertise to invest in a complex financial analysis, simply categorizing potential investments as low, medium, and high ROI may be all leaders can do with the data available. Districts with better access to the right information and district leaders tasked to facilitate the discussion may choose to dive in more deeply. But going through the process at any level is an improvement over simply restoring past cuts; it is an opportunity to reflect on whether the current model is actually working and what changes—even fundamental ones—might truly bring greater results.

System-Strategy ROI aims to create a research and data-informed process that considers the right range of options, asks the right questions, and helps focus resources on key district priorities. More detailed resources to describe the entire *System-Strategy ROI* process can be found in our original paper on the subject, "[Return on Investment in Education: A System-Strategy Approach](#)" (Education Resource Strategies, October 2014).

LCFF Pairs Well with ROI

System-Strategy ROI is also very well-aligned with the direction that California is moving. As of spring 2015, the State Board of Education is developing an evaluation rubric (facilitated by the non-profit WestEd), which will be used to guide districts in writing LCAPs, and county offices of education in reviewing them.^{vii} The evaluation rubric is not meant to be used to judge and punish, but rather to identify where districts are struggling and suggest support. The concepts embedded in this rubric sound very familiar to the concepts of *System-Strategy ROI*.

For example, the evaluation rubric rates districts on their strategic planning practices, including "The actions and services identified in the plan are based on sound research and/or evidence, which increases the likelihood of yielding improvements in student outcomes." The lowest category on the rubric, called "Developing" practice, is described as when the LCAP "reflects some new thinking" but "largely continues historical practices" and hardly ever phases out old programs. The highest category on the rubric, called "Sustaining" practices, is described as when the "actions and services" are "selected based on evidence of effectiveness at the LEA and/or evidence of success in an LEA similar in characteristics."^{viii} This is exactly what *System-Strategy ROI* is all about—carefully considering all

investments, including historical, current, *and* potential ones, and using evidence to choose the most effective. The rest of the evaluation rubric also emphasizes using data to make decisions, monitoring outcomes, and reallocating resources—including “time, staff, and funds”—to ensure resources are maximized. These recommended practices are highly aligned with *System-Strategy ROI*.

Going Forward

There are still many evolutions of LCFF to come, and many of them are not in the districts’ hands. For example, the Legislative Analyst’s Office recommends that the state allow districts to focus on just a handful of crucial goals rather than needing to address all state priorities; several reviewers have suggested further simplifying and clarifying the rules to place the LCAP within the broader picture of the district’s budget and strategic plans. But even as the process evolves, it is important to remember that LCFF is about more than filling in a form. It is about making strategic choices with new local control that best meet the needs of each of California’s students.

Endnotes

- i “Local Control Funding Formula 101: Understanding the New Funding System.” Children Now. February 2014.
- ii Hahnel, Carrie. “Building a More Equitable and Participatory School System in California: The Local Control Funding Formula’s First Year.” The Education Trust-West. December 2014. http://29v0kg31gs803wndhe1sj1hd.wpengine.netdna-cdn.com/wp-content/uploads/sites/3/2015/02/ETW-Building-a-More-Equitable-and-Participatory-School-System-in-California-Report_0.pdf.
- iii Taylor, Mac. “Review of School Districts’ 2014-2015 Local Control and Accountability Plans.” Legislative Analyst’s Office. January 2015. <http://lao.ca.gov/reports/2015/edu/LCAP/2014-15-LCAP-012015.pdf>.
- iv Education Week. *Education Counts Research Center*. <http://www.edcounts.org/createtable/viewtable.php>.
- v Levenson, Nathan; Baehr, Karla; Smith, Jason C.; and Sullivan, Claire. “Spending Money Wisely: Getting the Most from School District Budgets.” The District Management Council. June 2014. <http://www.dmcouncil.org/index.php/spending-money-wisely/>.
- vi The Center for American Progress has also done a lot of work on this issue. See Ulrich Boser’s “Return on Educational Investment: 2014.” Center for American Progress. July 2014. <http://cdn.americanprogress.org/wp-content/uploads/2014/07/ROI-report.pdf>.
- vii Hahnel, Carrie. “Building a More Equitable and Participatory School System in California: The Local Control Funding Formula’s First Year.” The Education Trust-West. December 2014. http://29v0kg31gs803wndhe1sj1hd.wpengine.netdna-cdn.com/wp-content/uploads/sites/3/2015/02/ETW-Building-a-More-Equitable-and-Participatory-School-System-in-California-Report_0.pdf.
- viii For more information on WestEd’s process to draft the Evaluation Rubrics, visit: <http://lcf.wested.org>.
- ix “Draft Version of the Evaluation Rubrics.” WestEd. March 2015. <http://www.cde.ca.gov/be/ag/ag/yr15/documents/mar15item06a3.pdf>.

Tools to Support California Districts with LCFF



[Seizing the Moment for Transformation in California](#)

Education Resource Strategies, May 2014

This publication explores how California districts can seize the moment of opportunity offered by LCFF to think strategically, think transformation, and think school-leader empowerment. It offers seven ideas for how districts can transform the way they use resources by connecting their people, time, and money to meet student and teacher needs.



[Return on Investment in Education: A System-Strategy Approach](#)

Stephen Frank and Don Hovey, Education Resource Strategies, October 2014

This publication argues that education leaders need to take a new approach to return-on-investment thinking, starting with the fundamental student need and looking at all resources that could be redirected to meet that need. It lays out five steps to take a system-strategy approach, including advice for how to find the right data and consider the right questions.



[School Budget Hold'em: California](#)

This interactive exercise allows school districts to choose among a set of savings and investments to reach their budget goals. Tailored to the California context, the exercise allows groups of stakeholders to consider the possibilities and trade-offs of working with the resources they have.



[Resource Check: California](#)

This short self-assessment allows district leaders to identify where they are using their resources strategically and where they have room for improvement. It is a good first step to starting a new LCAP.

[Resource Check: Parents/Padres](#)

This self-assessment can be used by parents to offer input on topics such as teachers, funding, and leadership. [Also offered in Spanish.](#)

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Education Resource Strategies (ERS) is a non-profit organization dedicated to transforming how urban school systems organize resources—people, time, technology, and money—so that every school succeeds for every student. We have worked hand in hand with more than 20 school systems nationwide, including 16 of the 100 largest urban districts, on topics such as teacher compensation and career path, funding equity, school design, central office support, and budget development. We also share research and practical tools based on our extensive dataset—including our School System 20/20 framework—and we collaborate with others to create the conditions for change in education.

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