PACE

COMMENTARY

Cost-Effectiveness Analysis Can Help Districts Plot Their Financial Course



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The coming much-needed influx of federal and state money to California public schools is an unforeseen and unprecedented windfall that will certainly help mitigate the many extra expenses the pandemic has created. It would be easy, and perhaps understandable, for local officials to become cavalier about how they use the extra funds they receive. The catch is that it is a one-time infusion of funds, not a permanent increase for California's perennially underfunded K–12 system. How can local school districts best use this one-time bump in funding?

OVER THE LAST YEAR, SCHOOL DISTRICT DECISION MAKERS HAVE BEEN ON A BUDGETARY ROLLER COASTER.

In **March 2020**, as the pandemic closed down California's economy, school district officials began to worry about the impact of COVID-19 fallout on their budgets. In **May**, they faced the possibility of nearly 10 percent in state funding cuts. In **July**, they received word that funding would not be cut. In the **fall**, it became clear that the pandemic would continue into 2021. In **January 2021**, the state had good news about the budget overall, with the prospect of funding increases.

Then **this March**, one-time state funds of $6.6 billion were approved, with the caveat that they must be spent by **August 2022**. Following this came the news that, under the federal American Rescue Plan, California's K–12 public education system would be getting an infusion of about $15 billion that must be spent by 2024. School districts have until **June 1** to create plans for spending those funds. And then, just **this month**, Governor Newsom's May budget revision proposed additional, huge one-time investments in public education to be used for recovery and transformation.

This money is an unforeseen and unprecedented windfall that will certainly help mitigate the many extra expenses the pandemic has created. It would be easy, and perhaps understandable, for local officials to become cavalier about how they use the extra funds they receive. The catch is that it is a one-time infusion of funds, not a permanent increase for California's perennially underfunded K–12 system.

HOW CAN LOCAL SCHOOL DISTRICTS BEST USE THIS ONE-TIME BUMP IN FUNDING?

Some funds must surely go towards addressing the short-term issues caused by the pandemic. In some districts, this may use all the additional funds received. The more complex question is how all districts should leverage the extra dollars to undertake initiatives that will both address short-term recovery needs and also have longer term benefits once this infusion goes away in just a few short years.

Years of preparing Local Control Accountability Plans have hopefully accustomed school and district leaders to the idea of identifying goals, describing specific actions they will take to meet those goals, and attaching budget numbers to the actions. Leaders can use that experience—and perhaps some of the outcomes they have tracked—to hone the quality of the short-term investments they are about to make.

COST-EFFECTIVENESS ANALYSIS COULD HELP GUIDE THE PATH FORWARD.

In our recently released PACE report *Cost-Effective Decision-Making for California's School System*, we emphasize that allocating resources efficiently means more money is spent on the most effective policies and interventions—resulting in less waste. Ultimately this adds up to better outcomes for students. Cost-effectiveness analysis can be useful in the near term, as districts are deciding which interventions to implement, and also later (once the one-time money has run out), in thinking about which interventions they should prioritize keeping. The new funds allow for a degree of flexibility and innovation, but this is most effective when there is a system in place for evaluating whether new approaches are improvements.

Cost-effectiveness analysis proceeds from the assumption that there are several different actions possible for reaching a goal and that they are likely to differ substantially in both their cost and impact. Such an analysis makes it possible to quantify the return—or potential return—on each investment option and to use that information to help guide decision-making. The report includes templates for undertaking this type of analysis, suggestions for how to calculate a cost-effectiveness ratio for comparing options, and several case studies that describe how some districts have used this approach.

The formula for determining the efficiency of an intervention

implementation costs (C) ÷ effects (E) = cost-effectiveness ratio (C/E)

The ratio is reported in dollars for each intervention in order to enable comparison of interventions.

WHEN SHOULD WE UTILIZE COST-EFFECTIVENESS ANALYSIS?

We provide some guidance regarding when such analyses make the most sense and how to interpret the results:

- **Focus on policies and programs that require significant funding and/or have major impact.** Given the effort involved, this kind of analysis makes the most sense when a program and investment decision is substantial and/or the outcome goal is a particularly high priority.

- **Undertake economic analysis when there are genuine choices to be made and options to compare.** This means comparing interventions *that have the same objectives for the same student groups and are actual alternatives*.

- **Use this strategy—and select options to compare—based on what is truly relevant and realistic in the current context.** Estimates of potential impact need to be externally valid with respect to the educational and economic conditions facing the district. Constraints on how resources can be allocated—because of state and federal rules or because of local issues—are important considerations.

- **Weigh the relative costs of doing or not doing an economic analysis.** Cost-effectiveness analyses take time and can also cost money, whether done by internal staff or by an outside researcher. However, just as there is a cost to doing this type of economic evaluation, there can also be a cost to not performing it.

Cost-effectiveness analysis is relatively straightforward and worth undertaking *when it can directly help with spending decisions*. With desired outcomes identified, it can be instrumental in finding out which interventions, programs, policies, or reforms are the lowest cost.

As districts plan for spending federal and state funds, cost effectiveness is an important tool for deciding how to get the most "bang for the buck" from this much needed infusion of recovery funds. It is important to establish the goals and/or outcomes of interest to determine what program or investment alternatives exist to achieve them. Goals may be highly varied, especially in the current context of the pandemic. For example, many school systems are identifying priorities such as updating facilities to improve safety and learning conditions; addressing student learning loss; and preventing future crises by supporting the comprehensive needs of students. In each of these areas there are multiple program options available.

We recommend that *effectiveness* and the *costs or resources* needed to achieve them serve as primary criteria for selecting priorities. We also recommend considering the *sustainability* of various approaches and, to the extent possible, considering various goals and funds in tandem to find efficiencies through a cohesive plan. In terms of costs, we recommend exploring investment options that will address long term challenges students (and society) are likely facing, which may involve leveraging external sources of support that can continue to serve students well beyond the pandemic recovery period.

For more information (including templates, practical suggestions, and case studies) on the cost-effectiveness analysis methodology, read the full report here.

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