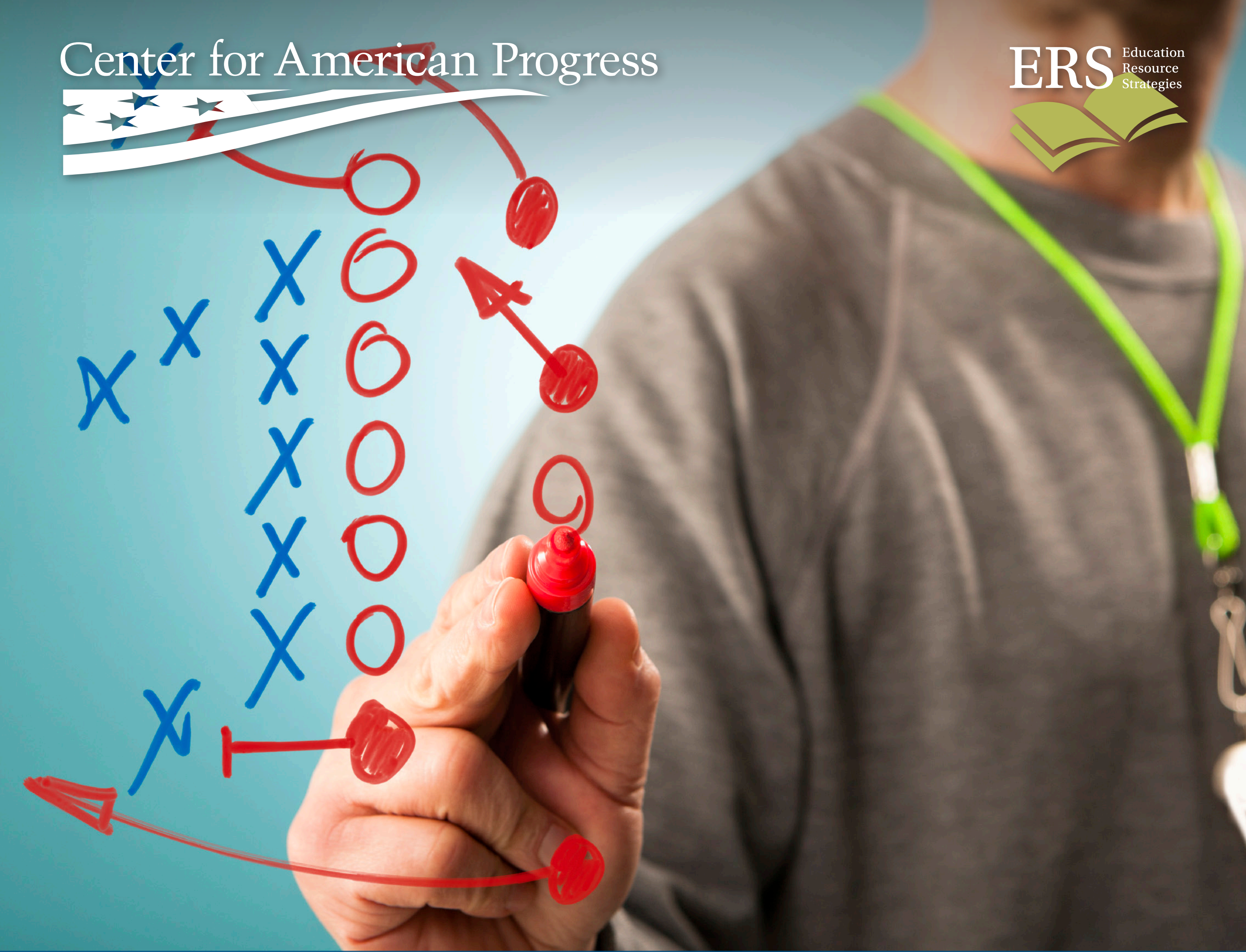
Center for American Progress

ERS Education Resource Strategies



The New Education CFO

From Scorekeeper to Strategic Leader

By Don Hovey and Ulrich Boser June 2014

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Introduction and summary

Whether in a school district or corporate office, there are a number of less-than-flattering monikers for a chief financial officer, such as "number cruncher," "bean counter," "the green visor," and "Dr. No."

Traditionally, district and corporate leaders regarded chief financial officers, or CFOs, as chief accountants. They were the individuals tasked with ensuring financial compliance, settling the books, creating reports, and cutting costs. The CFO was inherently risk averse and internally focused; he or she was there to backstop the ambitious plans of others.

Certainly, those accountability functions are no less important now than they were in the past. However, many CFOs are responding to today's more complex business and fiscal environments by changing their job descriptions. Whether it's in a small health care firm, a Fortune 500 company, or a large nonprofit organization, CFOs are pushing more and more into the role of what is best described as a "strategic CFO"—a chief accountant and valued partner who brings analytic expertise to high-level strategic decisions.

Strategic CFOs provide chief executive officers and their leadership teams with actionable data and make explicit the choices and tradeoffs required in tight budgetary times. They partner with other executives to look at a company's cost structure and investments across the board and help make sure that the budget reflects an organization's priorities. Strategic CFOs understand the "why" behind financial decisions, can effectively communicate that to the public, and focus on building sustainability. Put simply, today's CFOs look not just backward but forward as well.

The challenges facing our nation's school systems demand a similar transformation in financial leadership. New, higher standards and teacher-evaluation systems increase schools' accountability for significant improvement in student outcomes at a time when schools face tightening budgets. Furthermore, students are arriving at school with greater needs than ever before, and districts must prepare them for the increased demands of college and careers in the 21st century.

In short, business as usual is not going to get the job done. Districts must use their limited resources in dramatically different ways and transition from deep-rooted, historical structures to new models that prepare students for the globally competitive 21st century. In other words, districts need strategic CFOs who can help their leadership teams make those crucial resource decisions.

There is some evidence that this shift is already beginning. In July 2013, the authors partnered with the Association of School Business Officials International, or ASBO International, to conduct a survey of its membership and found that a large majority of respondents perceived their role as that of a strategic partner. However, the data also reveal that many districts may not support CFOs in that ambition, meaning that CFOs are not truly involved in all of the key decisions and that many entrenched barriers remain in their way.

Evidence gleaned from working with large urban districts shows that the academic side of the house typically makes key decisions that drive the bulk of resources and then drops these directives in the laps of the finance team to figure out how to pay for them. School district CFOs have a tougher challenge than do their business peers when it comes to surmounting deep-seated behaviors and role stereotypes in historically slow-moving bureaucracies. Furthermore, policymakers, SEAs, and education reformers can do far more to give school CFOs the training and capacity they need to succeed.

This report presents findings from our research, including survey responses, and offers recommendations on how best to develop the next generation of strategic CFOs. Among our findings:

- **School CFOs are not always a key part of district management culture.** When asked about various strategic decisions, 81 percent of CFOs said it was "very important" for CFOs to be involved in "capital allocation." This makes sense. But only 35 percent of district CFOs said that it was "very important" to be involved in "decisions around allocating and prioritizing instructional resources," and only 26 percent said that they were currently involved in that area. Since spending related to instruction represents between 60 percent and 70 percent of district operating budgets, this lack of CFO involvement represents a huge gap. Nearly half of respondents worked in business before assuming the school CFO role, so they presumably bring the skills of financial analysis and planning, but only 34 percent felt "very prepared" to be involved in decisions around instructional resources. Evaluating operational performance—such as cost per square foot—is relatively straightforward in a business context, but understanding how to link instructional input costs and outcomes is much more challenging.

- **CFOs lack the time and staffing to do more in-depth analyses or planning or to quantify the impact of inflexible structures, which makes strategic resource use difficult.** Of those surveyed, 76 percent felt that the lack of time or staffing significantly limited their ability to contribute more strategically. Moreover, 64 percent reported that inflexible structures such as class-size maximums created significant challenges to optimizing resource use. While class sizes are relatively transparent, experience shows that most CFOs do not quantify the significant, but more subtle, fiscal trade-offs embedded in policy choices and contract or categorical restrictions.

Given the needs of school systems today, districts cannot sustain their current approach. There is a need for a new brand of education CFO, one who watches dollars and offers high-level strategic expertise. This means moving away from a budget-manager approach and toward an approach that champions value—that is to say, ensuring a favorable return to students and teachers for the dollars invested.

School CFOs themselves can start the transition by measuring the use of people, time, and money across the district. That means helping their peers understand how historic choices and trade-offs have created current patterns of resource use that are not aligned with current district goals and strategy. Such an approach requires CFOs to develop relationships and credibility with peers on the academic side, build out their strategic analytic toolkit, and get out into the field. The strategic CFO shifts his or her focus from last year's accounts and this year's expenses to a multiyear, long-term horizon that builds sustainability.

To be sure, many school district CFOs have made this change. But for the most part, they are outliers, and far more needs to be done to change the culture of districts and build systems that support the strategic CFO. Admittedly, changing ingrained patterns of decision making can be difficult. Therefore, it is incumbent on superintendents to create new expectations for collaboration across finance and academics, demand solid analysis of current spending against key priorities, and integrate the budget and strategic planning timeline. In addition, superintendents can support the CFO in using a return-on-investment, or ROI, approach to the budget process. Under this type of approach, the leadership team looks at all of the district's investments to identify where current resources are not working well for students and teachers in order to realign investment to high-priority, high-return areas.

These findings lead CAP to recommend that major education stakeholders—policymakers, state and federal education agencies, foundations, and nonprofit organizations—invest to support the development of strategic CFOs and the creation and provision of comparative data around resource use that would enable this role.

Our specific recommendations include the following:

- **Create induction and other training programs for CFOs.** To help better prepare them and increase their understanding of their role, CFOs should have induction programs that build instructional context and show how corporate finance tools and techniques can be strategically adapted to the educational setting. Such induction programs could be run by states or started by nonprofits or foundations.

- **Build networks for continuous learning and mutual support for CFOs.** Networks can be a powerful way to advance the field. In collaboration with the Aspen Institute, Education Resource Strategies, or ERS, facilitates the Urban CFO Network, which connects like-minded, forward-thinking peers to share frameworks, tools, and best practices. Similarly, the Council of the Great City Schools, or CGCS, promotes practice and cross-district data sharing through its annual CFO conferences and Managing for Results project, as well as through member technical assistance efforts.[1]

- **Increase transparency and establish decision-support dashboards.** Financial reporting data built around accounting rules do not necessarily help districts and stakeholders understand how school resources are used to directly serve students. SEAs already capture data from districts on the deployment of people, time, and money for compliance and tracking purposes. SEAs should analyze and report that information back to districts in ways that help CFOs and the larger leadership team understand how they compare to their peers and which ways of organizing and investing tend to result in better outcomes.

- **Implement programs that support increased fiscal equity and flexibility.** Funding systems that allocate exact numbers of staff by type or chop up funding into many small, categorically restricted buckets limit how district leaders can use those funds to meet local needs. Can leaders be held accountable for changing student performance without being given the ability to innovate and creatively organize their resources to meet those needs? One solution is to implement weighted student funding, where resources are allocated as flexible dollars and follow students according to their need. California's new Local Control Funding Formula takes this approach at the state level. This is a step in the right direction, but far more needs to be done.

We do not mean to suggest that school systems should become like businesses, with a laser focus on the bottom line. Education systems have their own cultures and goals, such as student success, equity, and parental satisfaction, which can be difficult to measure and compare. This is precisely why high-performing districts need a strategic CFO, an individual who brings to bear the whole strategic brain—both the academic and financial halves of the brain—to inform key decisions and to partner with their instructional peers to reallocate resources to high-performing, fiscally sustainable purposes.

Background

Over the past few decades, the business world has changed rapidly. Economic uncertainty, constant technological change, and greater globalization have all dramatically reshaped our economy. As a consequence, more complex decisions have to be made more quickly and flexibly.

This has led to the rise of the strategic chief financial officer concept in all sorts of areas. As Robert Howell of the Tuck School of Business at Dartmouth College explains, "The people who have the strongest grasp of a company's finances need to be part of the strategic thinking from the ground up. Strategy and finance should be like two sides of a coin—inseparable."[2]

In recent years, school districts find themselves in similarly turbulent waters. They face quickly rising academic standards, a greater focus on teacher effectiveness, rapidly changing technology, and the more complex task of preparing students for college and careers in the 21st century. At the same time, their student populations are more diverse and arrive with greater need, especially in large urban districts. And very often, district leaders must face these challenges with limited budgets—sometimes much reduced in the past five years. The federal government has recently rolled back aid, property tax revenues are mercurial, and fixed costs keep rising. School districts can no longer rely on ever-increasing funding. In light of this fiscal reality, school districts are faced with trying to do more with less—or find another way. In fact, one recent study found that more than 40 percent of superintendents said that their budget situations were getting worse rather than better.[3]

These pressures have led some districts to change their approaches to strategic planning. Whereas budgets used to be full of incremental changes—a little more money here means an extra program, a little less there means a cut—the Great Recession forced districts to ask hard questions about their use of people, time, and money across the board. In smaller districts, budget cuts forced CFOs to take on more roles, including helping shape strategic priorities. But in big bureaucratic institutions, many CFOs are still regarded as chief accountants—and some have simply been asked to do more without gaining strategic perspective.

Translating numbers in a way that people understand

In 2010, then-Boston Public Schools CFO John McDonough and then-Superintendent Carol Johnson stood in former Boston Mayor Thomas Menino's office with a bold new plan. In the midst of a historic budget crunch and long-declining enrollment, McDonough and Johnson wanted to shake up the district's entire funding formula and implement a weighted student-funding system. McDonough recalls that Menino had a lot of questions: "Why are you introducing another initiative now? Don't you have enough on your plate?" And finally, "What am I going to say to the mother in South Boston about why this is important for her child?"

In an earlier time, Boston Public Schools' CFO might not have been asked such a politically minded question. Like in many other districts, the CFO's office used to focus on compliance, minimizing financial risk, and efficiency. But McDonough had built up a focus on long-range planning.

In 2009, his finance team highlighted how compensation and transportation costs were rising just as the stimulus funds from the American Recovery and Reinvestment Act would run out. Boston needed to find more than $60 million in long-term savings over the next two years and consider big and potentially painful trade-offs to get the cost structure back to sustainability. By communicating the facts early and often and by maintaining a consistent message to all stakeholders, the district finance team built the understanding that hard, significant change was required but that success was possible.

Aligned around the problem, the school district addressed these long-term issues over the next two years by streamlining central services, tackling transportation and assignment issues, and negotiating a new teacher contract, as well as addressing funding equity and school autonomy. As a strategic CFO, McDonough played a key role in helping the district make tough choices. As he put it recently, "Unless we change our [historical] practices, we can no longer afford to operate."

In other words, McDonough had to have an answer for Mayor Menino: "Mayor, you and the superintendent can now say to that woman in South Boston—and to every other parent—that your child, regardless of what school they attend, will be assured the same level of financial resources as any other similarly situated student." The point is not that weighted student funding is the answer to a district's woes. It's that one job of the strategic CFO is to know the numbers—and the other is to know how to use those numbers and have the analytic know-how to make the case for change and engage district peers, partners, and other stakeholders in driving solutions.

Source: John McDonough, phone interview with Melissa Galvez, August 14, 2013.

Findings

As part of the research for this report, the authors took a survey of the membership of the Association of School Business Officials International in July 2013. The authors also relied on their individual research and experiences. One of them, Don Hovey, has facilitated Education Resource Strategies' collaboration with the Aspen Urban CFO Network, as well as consulted directly with a number of urban districts on resource strategy. The other, Ulrich Boser, has done work on researching and identifying highly productive districts.

Our two major findings include:

- **CFOs are not always a key part of district management culture.** The good news is that some see the change on the horizon. In our survey, 60 percent of respondents reported that the role of the school business official is at least "very different" than it was five years ago.[4] When asked to explain how the role has changed, the largest percent mentioned changes such as becoming "more of a visionary role" and "much more integral to all key decision-making." A majority of CFOs surveyed—70 percent—perceived their role as "strategic partner—at the table for all key investment decisions and cuts."

  But many CFOs do not seem to believe that they actually play that role within their districts. In fact, only 55 percent of respondents felt that district peers and other leaders saw them as a "strategic partner"; 35 percent felt that others saw them as an "accountant—keeping track of dollars and compliance." Moreover, this lack of integration is worse in larger districts. Among those districts with more than 25,000 students, only 49 percent of CFOs felt that others perceived them as a "strategic partner."

  Nearly half of the survey respondents came to their school CFO role from business—industry, the private sector, or finance—where the strategic CFO transition has largely taken place. So it may be of little wonder that they are excited to take on a more active role. But they may not be fully exercising their strategic muscle. For instance, slightly more than 50 percent of CFOs create and use a multiyear—three-year to five-year—financial plan. And there are some very important strategic topics in which most CFOs still take little part. Overall, 81 percent said it was "very important" for CFOs to be involved in strategic decisions around "capital allocation," and 70 percent stated the same for "operations." Yet only 35 percent said that it was "very important" to be involved in "decisions around allocating and prioritizing instructional resources," and only 26 percent said they were currently involved in this area.

  While some CFOs are understandably hesitant to get involved in instructional matters, they bring great strengths to what is actually the most important conversation for district leadership. The strategic CFO could educate the rest of the leadership team on where resources are currently allocated and then work with the academic side to ensure that both current spending and new investments reflect the district's priorities. However, the data suggest these partnerships are not happening.

- **CFOs lack the time and staffing to do more in-depth analyses or planning and face inflexible structures that make strategic resource use difficult.** When it comes to strategy, CFOs face many barriers. Not having the time or the staffing to do long-term or strategic analyses ranked as the top job-related difficulty, with 76 percent of respondents rating the problem as "challenging" or "very challenging." Nearly 50 percent cited the fact that "strategic planning and budget processes were not aligned (i.e. budget happens before the strategic plan)" as the top challenge. Moreover, only 34 percent of respondents felt "very prepared" to be involved in decisions around instructional resources.

  Most notably, 64 percent of respondents felt that inflexible structures, such as class-size maximums, created significant challenges. In other words, CFOs want to be at the strategic table, but resource constraints, operational processes, and historical policies stand in their way.

  The authors observed these sorts of dynamics countless times on the ground in districts. Decision making typically occurs in silos, with the academic team on one side of the fence and finance on the other. Often, academic departments are unaware of each other's requests. For example, in one district we worked with, the administration spent a significant amount of money to hire instructional coaches without protecting time in teachers' schedules to work with them. In another district, schools were required to submit their final budgets and staffing levels in April but were not required to submit a strategic plan until August. If CFOs are viewed as merely chief accountants and fund dispensers, these misalignments of resources will happen regularly. The strategic CFO, however, steps in to coordinate the enterprise.

From scorekeeper to strategic leader

Looking forward, policymakers and state and district education officials need to dramatically change the way they understand the district chief financial officer. The traditional CFO is an expert at closing the books. In contrast, the strategic CFO, in addition to closing the books on the past year, must push the district to focus not only on the coming year but also on the short- and long-term future.

For education observers, the portrait of the strategic CFO described here may seem daunting, even unrealistic. School district CFOs are, and should be, responsible for the accounting and compliance functions that they have traditionally overseen. It is still crucial that someone ensure the books are closed correctly, transparently, and efficiently every year and that appropriate reporting is done. But strategic CFOs expand into roles that are a natural extension of their training and expertise. They already have access to budget data and to a team that provides financial analysis. The strategic CFO can effectively mobilize these resources to help the rest of the leadership team understand the district's cost drivers, model the impact of proposed changes, or quantify trade-offs and communicate the appropriate facts to stakeholders.

The strategic CFO, for example, can gather data on the cost of small class sizes or small schools, report on the actual total salary of the teachers in each building instead of using an average-salary approximation, or calculate what is termed "central in schools"—the amount of central budget actually spent in specific schools.

This does not mean that the strategic CFO masters the details of instructional strategies or teacher recruitment or becomes the final arbiter over which strategies are chosen. The strategic CFO is a district leadership team partner, adding value to complex decisions about instructional methods, school leadership, union contracts, facilities management, human capital policies, and more simply by helping the team understand the district's overall resource picture and the trade-offs that accompany each decision. Importantly, the strategic CFO can do that right now, in small ways that begin to demonstrate the value of this role. The strategic CFO is a champion for value—providing a framework and guiding the team to consider trade-offs that allow them to invest in reform strategies that have been shown to work.

Traditional CFO vs. strategic CFO

Scorekeeper CFO	Strategic CFO
Number cruncher	**Capacity builder:** Educates and communicates with district leadership and the community about cost drivers and trade-offs
"Dr. No" on spending	**Value champion:** Furthers value and best return for dollars invested by promoting a return-on-investment process that assesses how all district resources are aligned with priorities
Risk manager	**Strategic partner:** Teams with the chief academic officer, or CAO, to integrate financial and instructional perspectives
Reporting and compliance hawk	**Planner:** Looks long term and addresses sustainability
Bank or funder of others' priorities	**Strategist:** Makes the budget a tool for accomplishing strategic goals
Book balancer	
Cost cutter	

With every crisis comes opportunity

Matt Stanski, CFO of the School District of Philadelphia, had not been in his job for long before he saw more than his fair share of budgetary crises. In the spring of 2013, the district faced a $304 million deficit, and education officials voted to close 24 schools. By August of that year, Superintendent William Hite warned that schools might not open on time without an infusion of cash. Finally, the City of Philadelphia offered $50 million in emergency aid to the district.[5] "Because of the crisis, every dollar we spend is scrutinized," Stanski explains. "We laid off nearly 4,000 people—that's 4,000 lives we've affected because of the situation. Whatever we spend, I have to be confident defending it. It's got to be well-spent."

The high-pressure schools situation in Philadelphia is just an exaggerated version of what has happened in large urban school districts all over the country. Where districts once relied on a steady stream of local, state, and federal funding, the recession and other factors have now made every dollar precious. Stanski has been in the CFO role for a little more than five years, serving in Prince George's County, Maryland, before coming to Philadelphia in 2012. Even in that short time, he says that he has seen his role change.* Where he primarily used to approve budget reductions chosen by the academic teams, he must now know exactly what the district is spending money on and why it is spending it. At one meeting before the district's School Reform Commission, Stanski defended a plan to expand three high-performing schools in the midst of the budget crisis. He made a point of knowing the details of the proposal inside and out—there was no need to turn to the academic team to explain the rationale.

Just how does a CFO gain the knowledge needed to evaluate budget proposals from every corner of the school district and from various perspectives—from special education to human capital to transportation? In Stanski's case, he works closely with the rest of the district leadership team, from the superintendent to the chief operating officer to the deputy superintendent. Most importantly, Stanski says, he goes out into the schools: "When you make recommendations, you know from firsthand experience what makes a great school. You see what students and teachers need." Moreover, because of the budget crisis, he says, no one can afford to be sloppy, and everyone has to be sharp. This is why he believes that with crisis comes opportunity.

Source: Matt Stanski, phone interview with Melissa Galvez, August 16, 2013.

What does a strategic education CFO do differently?

To better understand what a strategic education CFO does differently, let's take budgets as an example. In many districts, education budgets largely reflect the accumulation of past spending decisions, shaped by historic practices and legacy contracts. Each year, districts vet new programs and new spending or cut from whatever area is deemed most expendable. But in the wake of the Great Recession, most districts can no longer afford to take this approach, and, as a consequence, many districts will make across-the-board cuts, sharing the pain across departments. The more enlightened perspective, however, is to take a holistic view of how resources are used across the district and identify misalignments.

A strategic education CFO will take the lead on ensuring that the budget is a reflection of the district's key priorities. Superintendents and other key leaders must support and enable that process, of course. This means starting the conversation with the district's goals and then working backward to identify what spending meets those goals. The holistic perspective also makes it easier to focus on equity across the district.

Taking such an approach might also mean leading a conversation around education's version of ROI. In the business world, ROI can be relatively easy to calculate—if you invest $100 and get $110 back, you have a 10 percent ROI. But if a district spends $100 on a tutoring program, iPads for students, or instructional coaches for teacher teams, it can be quite complicated to estimate the return. More importantly, because districts typically have legacy spending tied up in specific programs, the highest return options may be in redirecting current spending. That is to say, a district may see the highest ROI by ending a less effective or outdated program and instead investing those resources in more effective and strategic uses.

Above all, strategic education CFOs do not apply an ROI lens simply to incremental investment; rather, they elevate the analysis to understand where current resource use is not aligned with district priorities or is not providing enough value for students and teachers. They team with academic peers to guide district leadership through an ROI-like process that combines available evidence, budget data, and professional judgment to make informed decisions to realign spending to meet the district's priority goals—and then adjust investment as data come in.

In order to manage this sort of strategic budgeting process, the CFO needs to gather input from all sides of the proverbial table—from the CAO to the superintendent to operations and other internal and external stakeholders. As noted earlier, he or she does not need to be an expert in why a particular initiative will help students learn. The strategic education CFO, however, must ask good questions, proactively form linkages to the CAO's team, offer analytic support, and serve as a hub of the many important perspectives.

Challenges to the development of strategic CFOs

No matter how collaborative or innovative, an intrepid CFO can only go so far. In order to have impact, the roles, accountabilities, and processes of the entire district leadership team will have to shift. This must come from the superintendent, who would welcome the CFO to the strategic planning team and give him or her sufficient time, staffing, and the authority to do this crucial work. Although that may sound difficult for cash-strapped institutions, it is really an investment in the future of the organization, as a strategic CFO can help identify places where resources are currently misused.

Additionally, the timing of decision making has to change. The CFO must be included up front in key strategic decisions, not just consulted on the back end for advice on how to pay for a particular initiative. This may mean rethinking the budgeting and strategic planning calendar so that they become one iterative process—both for the district leadership and for schools.

There are certainly many district CFOs who are ready and willing to take on the mantle we describe. But there are admittedly profound challenges in their way. Part of the issue is the broader matter of school culture. Decision making and budgeting often happen in silos, and reporting structures are hard to change. The historical allocations that lard the budget may seem impossibly tangled up in other programs. And even though the strategic functions flow naturally out of the CFO's accounting role, such planning is an extra job responsibility. Districts that wish to support strategic CFOs need to create time, resources, and accountability for both paths.

Additionally, the strategic CFO may find it difficult, at least at first, to adapt business perspectives to the education sector. Since many CFOs come from the private sector, they may feel that they do not have the education background to participate in substantive strategic decisions. This is indeed an obstacle, but it also highlights how the strategic CFO needs to work in concert with the superintendent and the CAO's office—bringing his or her expertise in data analysis, forecasting, and presenting trade-offs to a conversation driven by education leaders. Strategic CFOs measure and compare the use of resources to help district leadership understand their cost structure and the levers that work in their environment to drive student performance and sustainable change.

The yin and yang

One district's approach to aligning budget with vision

"Megan and I always joke that we're the [yin] and yang," says Matt Hill, chief strategy officer for the Los Angeles Unified School District, or LAUSD.

"In other words, he's the smiley face and I'm the frowny face," adds Megan Reilly, LAUSD's CFO.

The pair is trying to describe their unique working relationship: two administrators, both responsible for the district's nearly $7 billion annual budget.[6] Reilly oversees budget execution—payroll functions, the comptroller, audit and compliance, and the treasury. Hill focuses on how the budget supports key strategic goals, ensuring that it fits with the district's long-term plan. But both of them are really working together—and with a small team that includes the deputy superintendent of schools and the budget director—to align the budget with the district's overall vision. This works well, Reilly says, though it might take a little more than the usual coordination: "We work together as a matrix in a team. In any organization, it's more demanding on communication skills to work that way—you have to be more adult about territorial issues."

This arrangement originated in the pressures of the recession, when California significantly reduced its state budget. Former Superintendent Ramon Cortines started the process by creating a strategic plan that shifted resources to a more decentralized, school-based model. As the economic crisis worsened, it seemed that budget concerns were becoming paramount.

LAUSD's next superintendent, John Deasy, wanted to continue the changes but also desired to accelerate the process. Deasy insisted that the failure of students to graduate was the real crisis, recalls Hill—not the budget. According to Hill, Deasy created the chief strategy officer position so that one person could focus on how the budget supports an instructional reform agenda, while another person—the CFO—could focus on closing the budget gap. These new structures broke up years of treating the budget like an accumulation of priorities—"a sedimentary layer"— as Reilly calls it. Now, instead of different groups trying to add or protect favorite programs, a group of key players is tasked with ensuring the budget matches the district's strategic plan.

"I'm always looking at the cracks in the sidewalk, the potential pitfalls," notes Reilly. Hill, on the other hand, can focus on the district's vision. It is this approach that the duo uses to guide LAUSD's budget toward the future.

Source: Matt Hill and Megan Reilly, phone interview with Melissa Galvez, August 14, 2013.

Recommendations

As outlined above, the value and potential of the strategic education chief financial officer position is great, but so are the obstacles to implementing this approach. So how do districts move forward? Of course, individual CFOs can take steps here. They can work to change the culture in their individual districts, and they can demonstrate the power of smart, financial-based decision making.

But that's not enough. There also needs to be systemic change. To that end, we offer the following policy recommendations:

- **Create induction and other training programs for CFOs.** District CFOs need far more support, and this support should start early. CFOs should have induction programs that quickly build instructional context and show how corporate finance tools and techniques can be strategically adapted to the education context. In some large states, the state education agency, or SEA, or a nongovernmental organization could run these sorts of programs.

  Another option would be a national program similar to the National Board for Professional Teaching Standards, except for CFOs instead of teachers. Under this approach, a national organization could develop a kind of district CFO boot camp to provide high-intensity, focused learning environments for high-potential finance staff to understand a district's vision and build the skills required to take on a more strategic leadership role.

- **Build CFO networks for mutual support.** Education Resource Strategies' work in collaboration with the Aspen Institute to facilitate an Urban District CFO Network is an example of how CFOs can connect with like-minded, forward-thinking peers to share frameworks, tools, and best practices. Through this network, CFOs also have the opportunity to meet regularly with chief academic officers and wrestle with strategic resource allocation questions together.

Following a recent joint Aspen Urban CFO Network and CAO session, the school districts in Boston, Massachusetts; Baltimore City, Maryland; Denver, Colorado; and Charlotte-Mecklenburg, North Carolina, are all taking steps to incorporate a more structured return-on-investment approach to budget and investment decisions.

Similarly, the Council of the Great City Schools promotes practice and cross-district data sharing through their annual CFO conferences and Managing for Results project, as well as through member technical assistance efforts.[7]

- **Increase transparency and establish decision-support dashboards.** SEAs already capture a great deal of data from districts—for compliance and tracking purposes—on how people, time, and money are deployed. SEAs should provide useful reports on that data back to districts so that CFOs and the larger leadership team can see where those resources are used effectively and where they are not meeting student needs. These dashboards would support strategic decision making, not mandate certain actions. In return, SEAs could hold districts to higher levels of accountability for performance.

- **Implement programs that support increased fiscal equity and flexibility.** In many districts, there are education-funding mechanisms that prevent educators from innovating. As Center for American Progress Managing Director for Education Policy Melissa Lazarín has written, most states continue to rely on "categorical grants [that] can discourage school leaders from using their dollars in ways that might best address their students' needs."[8] In fact, some states, such as Iowa and Michigan, have more than 50 different categorical funding programs, each of which comes with its own set of rules and regulations. Resources arrive at schools in ways that do not align with student needs, and there are many rules that make it difficult for schools to meet student-outcome goals in innovative ways. States, such as California, with a Local Control Funding Formula are moving in the right direction, allocating funding by student-need category and grouping formerly separate categorical funding streams into a single, more flexible bundle while asking districts to demonstrate accountability to broader categorical outcomes. Moving to provide districts with dollars-per-pupil-based funding that is weighted for student need can help district leaders optimize school resources and ensure equity.

Conclusion

With the growing complexity of operating school districts in a challenging fiscal environment, as well as the need to transform how K-12 education prepares students to succeed in the 21st century, districts need a new breed of financial leader. The strategic education chief financial officer is that leader—a highly valued player on the district cabinet who facilitates analysis and rigorous decision-making processes in partnership with superintendents and instructional peers.

The strategic education CFO is proactive in his or her approach to school budgeting and uses long-range planning to understand sustainability and to identify critical issues on the horizon. Telling compelling stories with data, the strategic CFO helps transform how district resources—including talent, time, dollars, and technology—are used to meet evolving student needs in the long term.

There are indeed deep challenges to the evolution of the strategic education CFO—challenges that require states, districts, governors, advocacy organizations, and stakeholders to all play a role. It is abundantly clear that we cannot continue with business as usual. The time to transform how we approach the district budgeting process is now.

***Correction, June 26, 2014:** This report has been updated to clarify Matt Stanski's work history. He moved to Philadelphia in 2012.*

About the authors

Don Hovey was a partner at Education Resource Strategies from 2008 to 2014. In that role, Hovey split his time between intensive consulting support to districts and states and managing ERS' network activity and office operations.

Hovey has worked to analyze and improve the funding systems, school-level resource use and school design, human capital, and central-office support systems in a number of urban districts including: Baltimore City, Charlotte-Mecklenburg; Philadelphia; Nashville; Prince George's County, Maryland; and Rochester City, New York. He has also co-led ERS' work with the Aspen Urban CFO Network and with the state of Georgia and a five district cohort, including Fulton County, Marietta City, and Hall County. He has been a presenter and panelist at the Council of the Great City Schools' conferences, as well as the National Governors' Association's education policy advisors retreat and Resource Reallocation Policy Academy.

Prior to joining ERS, Hovey held a variety of strategic planning and marketing leadership roles at Smith & Nephew Endoscopy and Boston Scientific Corporation, after beginning his career as a consultant for Bain & Company. He is currently the vice president of marketing at VMTurbo, a high-tech start up. He has a bachelor's degree in economics from Williams College and a master of business administration MBA from Harvard Business School.

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Boser has written a number of influential reports. His study of school spending included the first-ever attempt to evaluate the productivity of almost every major school district in the country. Hundreds of media outlets covered the release of the report, including *The New York Times*, *The Washington Post*, and the Associated Press. Boser also serves as research director of Leaders and Laggards, a joint project of the Center for American Progress, the U.S. Chamber of Commerce, and Frederick M. Hess of the American Enterprise Institute that evaluates state systems of education.

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Acknowledgements

The authors would like to gratefully acknowledge ERS' president and executive director, Karen Hawley Miles, on whose insights and experience much of this paper is based. We would also like to thank ERS writer Melissa Galvez for her work to bring these ideas to life, Ron Skinner at the Association of School Business Officials International, and the many ASBO International members who participated in the survey.

Endnotes

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