

I. Issue – The “65%” Law: Minimum Direct Classroom Expenditures

During the 2006 Session of the Georgia General Assembly, the Legislature passed the “Classrooms First for Georgia” bill (Senate Bill 390) which required, at a minimum, 65% of a system’s total operating funds to be spent in the classroom. Systems not in compliance must increase their direct classroom expenditures¹ by two or more percentage points over the previous fiscal year until they are in compliance.

II. Executive Summary

By unanimous vote at their August 25, 2011 meeting, the State Education Finance Study Commission approved recommendations to eliminate the 65% law in its entirety and repeal corresponding Title 20 language.

III. Current Situation/Practice

In the early 2000’s, the “65% solution” was developed by a political consultant under the premise that 65% of a school’s operating budget should be spent in the classroom, otherwise known as direct instruction expenditures. The idea was that the 65% solution would increase money spent in the classrooms without raising taxes and would improve student outcomes. The 65% solution gained traction within state legislatures and was discussed in many states.

However, one of the main issues surrounding the 65% solution is the definition of “direct classroom expenditures.” The 65% solution uses the National Center for Education Statistics’ (NCES) definition of “classroom instruction,” which includes salaries for teachers and aides, textbooks, computers and supplies, and funding for extracurricular activities. It does not include salaries associated with maintenance and operations, counselors, teacher training, transportation, food services, or media specialists. Funding for school and central office administration would be considered an indirect instruction expense.

Critics of the 65% solution argue that while expenditures such as maintenance and operations, transportation, counselors, and media specialists are not directly linked to the classroom, they play a vital support role in the education of a child, and the 65% solution does not take that into consideration. By viewing these types of expenditures as administrative, instead of instructional support, systems may be discouraged from spending funds on positions and functions that are necessary to operate a school. It has been advocated that the NCES definition of pupil support services² be included in the definition of classroom instruction.

¹ This includes expenditures from federal funds, state funds, local funds and any other funds received by a local system. It excludes capital outlay expenditures, debt or bond payments, and interest on debt of bonds, facility leases, rental payments and costs incurred to comply with a mandate that adds specific non-classroom staff positions after January 1, 2006.

² Categorizes activities designed to assess and improve the well being of students and to supplement the teaching process. This includes guidance counselors, health and psychological services, supervision services, and student accounting services.

With the passage of SB 390, Georgia adopted its own definition of “direct expenditures” that includes salaries and benefits for teachers and paraprofessionals; costs for instructional supplies and materials; costs associated with classroom activities³; and tuition paid to out-of-state districts and private instructions for special needs students. This definition still does not include costs for administration, plant operations and maintenance, food services, transportation, instructional support, which includes media centers and teacher training, and student support (nurses and guidance counselors).

For those systems not meeting the 65% expenditure requirement, Georgia law allows for a renewable waiver either through achievement or hardship. In order to receive an achievement waiver, a system must exceed in a fiscal year: the state’s average in Adequate Yearly Progress (AYP), graduation rate, or the most recent SAT scores. A hardship waiver may be granted by the State Board of Education to a system which has undergone an extreme situation that is solely responsible for its inability to meet the expenditure requirement. The State Board can impose sanctions against a system that fails to comply with this law, including withholding funds. However, according to the Department of Education, the State Board has never imposed any sanctions against a system in the three-year history of the program.

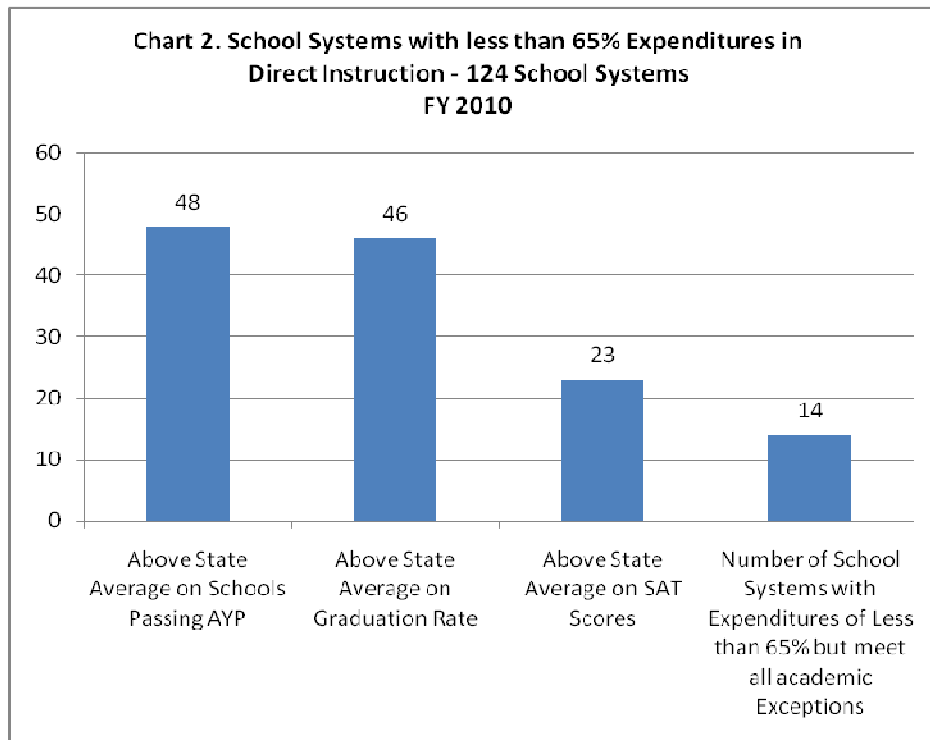
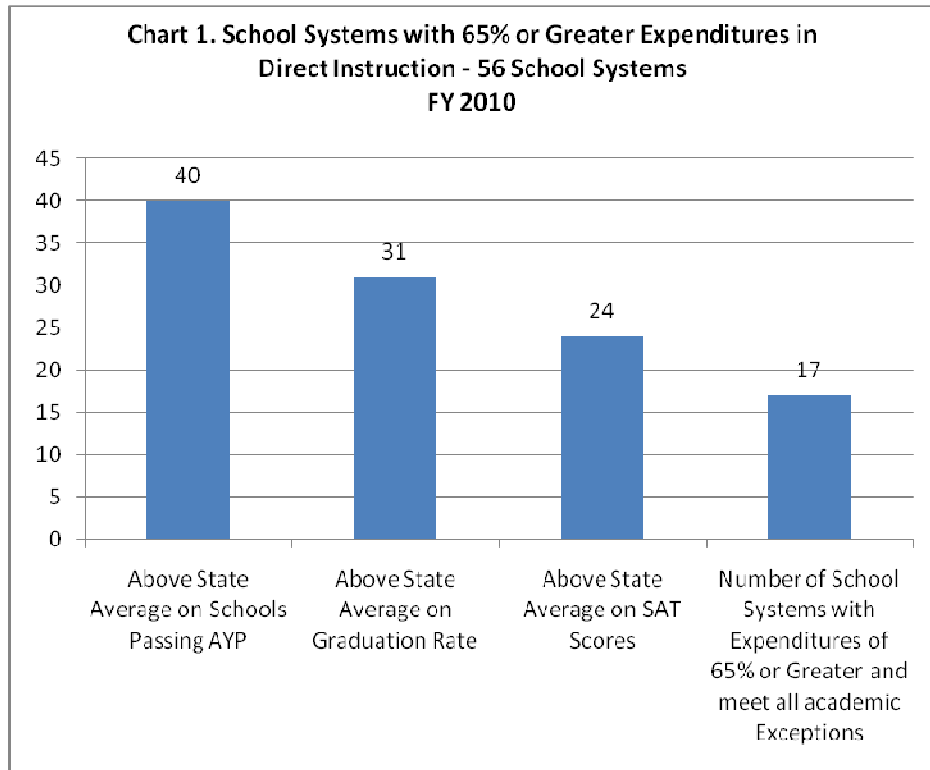
Table 1 shows a history of the 65% law and a breakdown of school system compliance over the four-year period, with 2007 as the baseline year.

Table 1: 65% Rule Compliance

Summary of Systems	Baseline 2007	2008	2009	2010
Compliant Through 65%	75	80	64	56
Compliant 2% Growth	16	9	4	7
Compliant Through AYP	33	42	51	47
Compliant Through Graduation Rate	9	9	14	20
Compliant Through Avg. SAT Score	1	0	0	4
Non-Compliant	46	41	47	46
Total Systems	180	180	180	180

³ Field trips, physical education, music, and arts.

Chart 1 and Chart 2 show the achievement data for systems that met the 65% expenditure requirement and those that were not compliant.



IV. Other States

Other states' support for the measure is limited. As of now, only Texas (by executive order), Kansas, and Georgia have enacted the measure.

Texas, after enacting the measure in 2005, recently saw a bill introduced by the House Public Education Committee to repeal Governor Perry's executive order. The 65% measure was repealed in a final omnibus bill in 2009.

Virginia, Nevada, North Carolina, Maryland, Missouri, Michigan, Nebraska, Ohio, and California have seen the 65% solution introduced or the measure discussed in their respective legislature, but at this time have deemed it to be a local control issue.

Colorado placed the issue as a constitutional amendment on their ballot in 2006 and it was defeated by a 58-42 percent margin.

In Florida, the rule was placed on their ballot but was removed by the Florida Supreme Court in 2008. It must be noted that the Court pulled the measure from the ballot on the grounds that the title was misleading because it included "voucher" language and it was determined that voters could be misled by the title of the Amendment.

While Louisiana did not consider or adopt the 65% solution to date, they do have minimum requirements in place for school level expenditures. Louisiana's Minimum Foundation Program (MFP) formula, which is the mechanism used to allocate state funding to public and secondary schools, requires that local school districts expend at least 70% of their general fund in the areas of instruction and school administration. This includes instructional support activities and curriculum development, instructional staff training, library/media, and instructional related technology. School administration includes the activities performed by the principal, assistant principals, and other assistants while they supervise all operations of the school, evaluate staff members of the school, assign duties to staff members, supervise and maintain the records of the school, and coordinate school instructional activities with those of the school system. These activities also include the work of clerical staff in support of the teaching and administrative duties.

While the 70% requirement is not statutory, the MFP is adopted by the State Board of Elementary and Secondary Education and annually approved by the legislature in the form of a concurrent resolution.

V. Alternatives for Consideration

A 2007 study⁴ by researchers at the Texas A&M Bush School of Government and Public Service and the Department of Economics, found no evidence that inducing schools to spend a greater share of their budgets in the classroom will lead to increased efficiency.

⁴ http://bush.tamu.edu/research/workingpapers/ltaylor/The_65_Percent_Solution.pdf

Another study conducted by Standard and Poor's⁵ (S&P) in 2005, analyzed the data in nine states⁶ that were considering the 65% solution and found that no significant positive correlation between the percentage of funds that districts spent on instruction and the percentage of students who scored proficient or higher on state reading or math tests. The report noted that some of the highest performing districts spent less than 65%, with some of the lowest performing spending more than 65%.

VI. Final Commission Recommendation

The State Education Finance Study Commission, after finding no direct correlation between the law and improved student achievement, recommends that the Minimum Direct Classroom Expenditure law, known as the 65% law, be repealed in its entirety.

⁵ http://www.studenttrans.com/docs/65_paper_schoolmatters.pdf

⁶ Texas, Kansas, Kentucky, Ohio, Florida, Arizona, Colorado, Minnesota and Louisiana.