

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 229 (Senator Greenip, *et al.*)
Education, Health, and Environmental Affairs

Education - Classroom Instruction Expenditures - Required Funding

This bill requires each local board of education to spend at least 65% of its total annual operating expenditures on “direct classroom expenditures” beginning in fiscal 2010. For any year in which a county board has direct classroom expenditures that amount to less than 65% of its total operating expenditures, it must increase the proportion of expenditures for direct classroom instruction by 2% per year until it reaches the 65% minimum.

The bill takes effect June 1, 2008.

Fiscal Summary

State Effect: General fund expenditures could increase beginning in FY 2009 to restructure databases used to collect and report local school system financial information. General fund expenditures could decrease beginning in FY 2010 if the State withholds education aid from local school systems due to an inability to meet the bill’s requirements. Revenues would not be affected.

Local Effect: Although the bill could result in the reallocation of expenditures within local school systems, it is unlikely to result in an increase or decrease in total school expenditures. If a school system is unable to achieve the 65% requirement, State aid could be withheld from the system.

Small Business Effect: Minimal.

Analysis

Bill Summary: The bill defines direct classroom expenditures as costs and activities directly associated with the interaction between teachers and students, including

- salaries and benefits for teachers and paraprofessionals;
- costs for instructional materials and supplies;
- costs associated with classroom-related activities, including field trips, physical education, music, and arts; and
- tuition paid to out-of-state school districts and private institutions for special needs students.

Local boards of education that are unable meet the bill's requirements may apply to the State Superintendent of Schools for an achievement waiver or a hardship waiver. A request for an achievement waiver must include documentation that the schools under the local board's jurisdiction are exceeding the State averages in academic categories designated by the State Superintendent, as well as documentation that the local board has a plan to meet the requirements. A request for a hardship waiver must include compelling evidence of the impact that an intervening extreme situation had on the local board's ability to meet the bill's requirement. A hardship waiver may only be granted if an extreme situation is solely responsible for the board's inability to meet the requirement. The waivers are good for one fiscal year and are renewable.

The State Superintendent of Schools may require a local board to submit budget and expenditure data for verification of compliance with the bill's requirements, and the State Board of Education is authorized to impose sanctions against a local board of education that fails to comply with the requirements. The State board must adopt regulations establishing sanctions that include

- requiring a local board to develop and implement a plan to comply with the bill's requirements and
- withholding State funds from the local board.

Current Law: Each local board of education must prepare an annual budget that is comprised of several required expenditure categories, including instructional salaries, instructional supplies, and special education. The comprehensive master plan and updates to the plan that are submitted by each local board of education must identify the strategies that will be used to improve student achievement in each segment of the student population, and must describe how the board's budget is aligned with these strategies.

Background: A group called First Class Education has started a campaign to have legislation passed in all 50 states and the District of Columbia to require that 65% of education expenditures be spent in the classroom. First Class Education suggests that, in the 2002-2003 school year, an additional \$14 billion would have been available to teachers and students in U.S. schools if school districts had spent 65% of their

expenditures on direct classroom instruction. As evidence of the effect that the “65 Percent Solution” could have on student achievement, the group claims that the five states with the highest standardized test scores also spent the highest percentages of their total expenditures in the classroom, while the five states with the lowest test scores spent the lowest percentages of their expenditures in the classroom.

Georgia passed legislation in 2006 mandating the 65 Percent Solution for its school systems, and in Texas the Governor issued an executive order requiring school districts to comply with the 65% requirement. Although not a mandate, the Kansas legislature set a public policy goal of spending 65% of total school expenditures on direct classroom costs. The 65 Percent Solution has also been proposed or discussed in other states across the country.

In fall 2005, Standard & Poor’s released a study on the 65 Percent Solution. The study compared student performance to the percentage of expenditures devoted to classroom instruction in the school districts in nine states. The report concluded that “Student performance does not noticeably or consistently increase at 65%, or any other percentage spent on instruction.” The report acknowledges, however, that “measuring the percentage a district spends on instruction can be a useful performance benchmark for district leaders and policymakers.”

Maryland’s existing expenditure categories do not align perfectly with the bill’s definition of direct classroom expenditures. Maryland’s instructional salaries budget category includes the salaries of teachers and aides, but also includes the salaries of psychological personnel, guidance counselors, and library personnel, which are not considered direct classroom expenditures. In addition, teachers’ retirement payments, which are actually expended by the State on behalf of local school systems, do not distinguish between the payments made for classroom teachers and the payments made for other professional school personnel. Payments made on behalf of a classroom teacher are part of the teacher’s benefits package and could, therefore, be included as direct classroom expenditures. Retirement payments made on behalf of administrative school personnel, however, would clearly not be part of the required 65% support for classrooms. If state-paid retirement benefits are to be included in the 65% calculation, further specificity about the personnel the payments support would be needed.

In spite of the limitations in Maryland’s current reporting and funding structures, **Exhibit 1** displays instructional and special education expenditures as a percentage of total current expenses for fiscal 2006, the most recent year for which actual school system expenditure data are available. The exhibit suggests that most of Maryland’s school systems may be above or near the 65% threshold that would be set by this bill.

Exhibit 1
Percent of Total Expenditures Devoted to Instructional and Special Education Costs
Fiscal 2006

<u>School System</u>	<u>Total Operating Expenditures*</u>	<u>Instruction and Special Education Expenditures</u>	<u>% Instruction/ Special Education</u>
Allegany	\$99,716,015	\$68,841,562	69.0%
Anne Arundel	730,234,719	495,935,813	67.9%
Baltimore City	984,075,942	660,850,917	67.2%
Baltimore	1,103,358,048	744,631,462	67.5%
Calvert	169,508,484	112,140,434	66.2%
Caroline	50,026,430	33,325,928	66.6%
Carroll	273,258,678	177,181,692	64.8%
Cecil	155,577,081	102,976,680	66.2%
Charles	246,815,956	155,781,286	63.1%
Dorchester	47,284,081	30,682,697	64.9%
Frederick	372,159,197	242,816,531	65.2%
Garrett	46,565,944	30,116,324	64.7%
Harford	373,683,738	252,129,432	67.5%
Howard	548,084,854	374,190,060	68.3%
Kent	27,217,704	17,433,928	64.1%
Montgomery	1,767,545,886	1,238,164,107	70.0%
Prince George's	1,365,988,555	855,348,605	62.6%
Queen Anne's	70,640,615	47,418,967	67.1%
St. Mary's	151,096,757	96,895,670	64.1%
Somerset	32,599,530	21,083,702	64.7%
Talbot	42,922,657	28,614,947	66.7%
Washington	197,798,641	133,617,840	67.6%
Wicomico	139,708,437	94,760,737	67.8%
Worcester	80,102,115	55,583,750	69.4%
Total	\$9,075,970,065	\$6,070,523,073	66.9%

*Capital outlay expenditures are excluded and teachers' retirement payments are included. If teachers' retirement payments were to be excluded, total operating expenditures would decrease and the percent of funds supporting instruction and special education would increase.

Source: *Selected Financial Data*; Maryland State Department of Education

State Expenditures: Because financial data from the local school systems is not currently collected in a manner that distinguishes direct classroom expenditures from other school expenditures, general fund expenditures would increase to update existing Maryland State Department of Education databases and reporting tools. If necessary, the process of updating the current information systems could take place over several years to avoid significant costs in any one fiscal year. In that case, a temporary expenditure reporting system that meets the needs of the bill could be developed until the restructured system is operational. Although the bill would require additional oversight of local school system finances, it is assumed that MSDE could monitor compliance with the bill using existing personnel and resources.

In the unlikely event that the bill leads to the withholding of State education aid from a local school system, general fund expenditures would decrease accordingly.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Department of Education, Department of Legislative Services

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