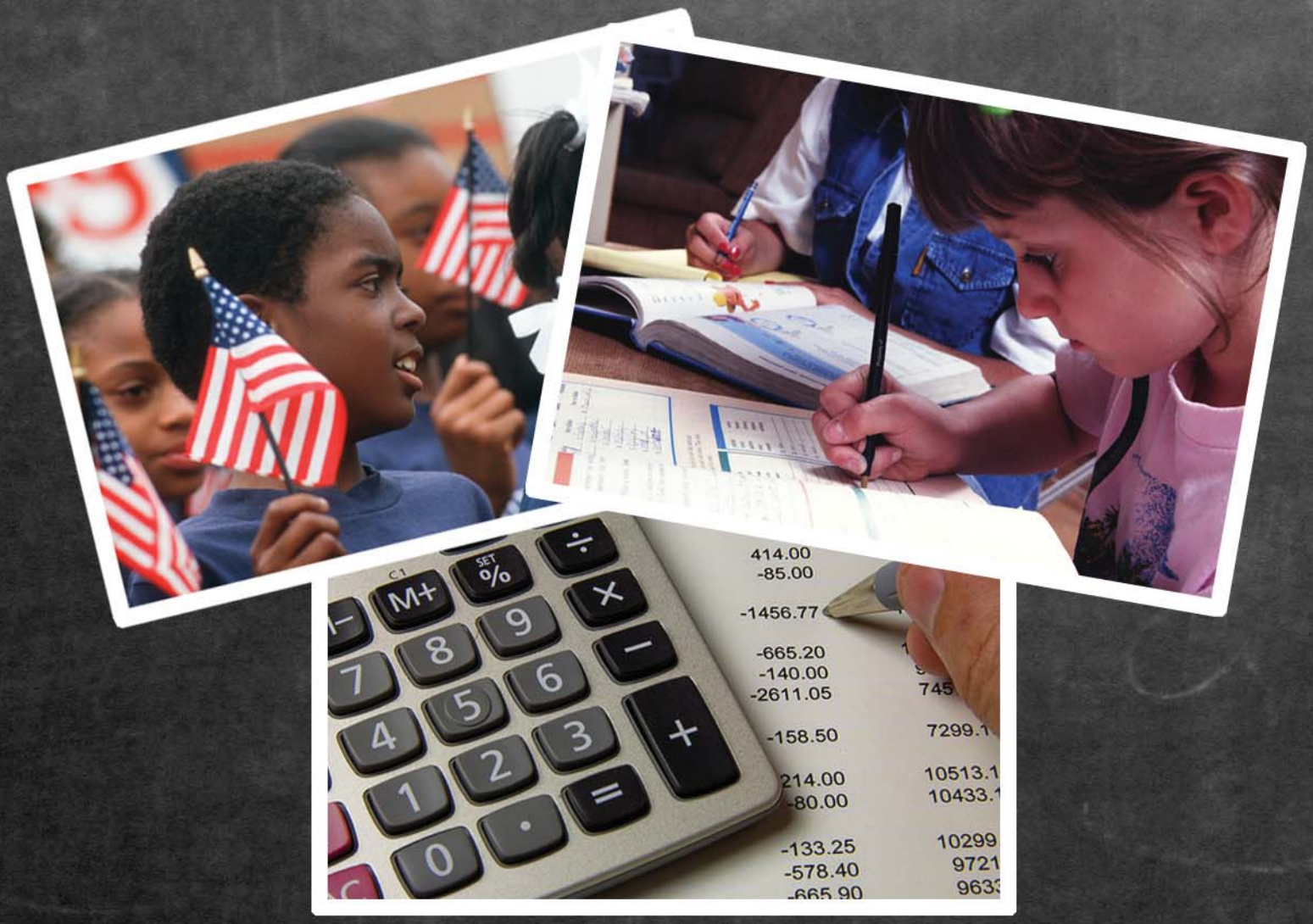
Report of the Tennessee Advisory Commission on Intergovernmental Relations



Tennessee School System Budgets: Authority and Accountability for Funding Education and Operating Schools

January 2015

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Report of the Tennessee Advisory Commission on Intergovernmental Relations

Tennessee School System Budget: Authority and Accountability for Funding Education and Operating Schools

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January 2015

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State of Tennessee
Tennessee Advisory Commission on Intergovernmental Relations
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January 28, 2015

The Honorable Ken Yager
Chair, Senate State and Local Government Committee
301 6th Avenue North
Suite G-19 War Memorial Building
Nashville, Tennessee 37243

Dear Chairman Yager,

Transmitted herewith is the Commission's report evaluating the proposal set forth in Senate Bill 1935 by Senator Jack Johnson (House Bill 2250 by Casada) to give certain local legislative bodies authority to revise administrative line items in proposed school system budgets when administrative spending exceeds 10% of the total. The report, which recommends that the current system for approving school system budgets remain unchanged, was approved on January 28, 2015, and is hereby submitted for your consideration.

Respectfully yours,

Senator Mark Norris
Chairman

Lynnisse Roehrich-Patrick
Executive Director

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MEMORANDUM

TO: Commission Members

FROM: Lynnisse Roehrich-Patrick
Executive Director

DATE: 28 January 2015

SUBJECT: School Board Budget Line-item Authority for City Councils and County Commissions (Senate Bill 1935 by Johnson)—Final Report

The attached Commission report is submitted for your approval. The report responds to Senate Bill 1935 by Johnson (House Bill 2250 by Casada), which was referred to the Commission for study by the Senate State and Local Government Committee of the 108th General Assembly. The bill would have given certain local legislative bodies authority to alter or revise administrative line items within school systems' budgets when administrative spending exceeds 10% of the total. Under current law, local legislative bodies can revise only the total budget amount. The report includes information about a related bill that would have allowed the same local legislative bodies to alter or revise line items of proposed education budgets if line items were allocated for lobbying expenditures. That bill made it to the full House and Senate but failed in the House on a close vote and was not voted on by the Senate. The report describes issues raised by both bills and explains the Commission's recommendation that authority over specific line items within school budgets remain with the elected school boards.

Contents

Tennessee's School System Budgets: Authority and Accountability for Funding Education and Operating Schools

Ensuring That the State's Responsibility for Public Education Is Carried Out Responsibly

The General Assembly, over the course of a century, has repeatedly affirmed the need to separate the funding of schools from the operation of schools. The school budgeting process in Tennessee, where local legislative bodies rather than independent school districts raise taxes to fund school systems, is unlike that in the majority of other states. In all but nine states, most school boards have their own taxing authority independent of the local jurisdictions within which they are located. Tennessee's approach provides more oversight of school system expenditures by assigning responsibility for funding schools to counties and cities and giving authority to decide how to operate them to locally elected school boards that are accountable to the state for student achievement.

Local legislative bodies must raise and allocate funds for schools but have no accountability for school system operations.

Although most of Tennessee's school systems are organized around local government jurisdictions—counties and cities—and receive some local funding, they are creatures of the state, established to provide education, a state constitutional responsibility. The local legislative bodies must raise and allocate funds to operate schools, but their authority over school boards ends there, and they have no accountability for school system operations. This separation of powers provides a built-in check on education budgets unlike that in most other parts of the country. It may cause contentious interactions between the two elected bodies from time to time, but the present system and its inherent negotiation process lead ultimately to compromise. Moreover, the balance struck between these two units of local government supports the notion that authority and accountability must go hand in hand. As George Jones and John Stewart noted in *Public Money and Management*, writing about the link between responsibility and accountability: "One should not be held accountable for matters beyond one's responsibility, but one should be held accountable for matters within it."

Local legislative bodies cannot alter or revise specific school budget line items, but they have complete control over the budget total, and they have several ways to learn about and question school expenditures, including through financial audits and accountability reports.

The budget process itself offers the members of local legislative bodies many opportunities to question and challenge school-system expenditures and voice opposition, and most take at least some advantage of them. And after budgets are approved, school boards cannot shift funds between major categories during the school year without the local legislative bodies' approval.[1] Moreover, county commissions must require county boards of education, through their directors of schools, "to make a quarterly report of the receipts and expenditures of the public school funds, the needs of the county elementary and the county high schools, the progress made in their development, and other information as to the administration of the public schools that it may require."[2] Using this authority, local legislative bodies can exert considerable influence over how school boards spend their money.

Local legislative bodies can exert considerable influence over how school boards spend their money.

Nevertheless, two bills were introduced in the second session of the 108th General Assembly that would have changed the historical relationship between local legislative bodies and boards of education. One bill, House Bill 2293 by Durham (Senate Bill 2525 by Bell) failed on the House floor in a close vote. It would have authorized certain local legislative bodies to alter or revise line items of the proposed education budgets if the line items were allocated for lobbying expenditures. The other, Senate Bill 1935 by Johnson (House Bill 2250 by Casada) was referred to the Commission by the Senate State and Local Government Committee. It would have given certain local legislative bodies authority to alter or revise administrative line items in school systems' budgets when administrative spending exceeded 10% of the total budget. Presently, local legislative bodies can revise only the total budget amount. Both bills applied to cities, metropolitan governments, and those counties that have adopted one of three optional county budgeting acts but excluded special school districts, presumably because they are not dependent on local legislative bodies for budget approval, and omitted counties that have not adopted one of three optional budget acts or that operate under private act or charter. See appendixes A and B.

These bills would have shifted some of the local school board's authority for operating schools to the local legislative body without shifting any accountability for school system performance. Accountability became a major issue in 1992 with passage of the Education Improvement Act. That act placed a heavy burden of accountability for school performance on local school boards. Federal accountability legislation followed. In order to meet those stringent standards, school boards need authority to determine how to spend the funds allocated to them by the cities and counties. Giving local legislative bodies more control over specific budget

[1] Tennessee Code Annotated, Section 49-2-301(b)(1)(W)(ii). See also Opinion No. 99-100, Office of the Attorney General and Reporter, State of Tennessee.
[2] Tennessee Code Annotated, Section 49-2-101(2).

items would leave school boards with all of the accountability and less authority to allocate resources to meet their responsibilities.

Moreover, data on school-system expenditures do not demonstrate that administrative expenditures for the overwhelming majority of school systems are unreasonable or that the present system does not work. An August 2014 report, *Administrative Spending in Tennessee K-12 Education*, by the Tennessee Comptroller's Offices of Research and Education Accountability finds that over the 15-year period from 1999 through 2013, statewide administrative costs as a percent of total costs averaged 9.6%. The exceptions tend to be the smallest school systems, many of which operate only one school. Although the statewide rate increased 1.9 percentage points over the 15 years, Tennessee spent a smaller percentage on administration overall than either the Southeast or the nation in 2011, the most recent year that national comparisons were available.

For all these reasons, the Commission recommends that authority over specific line items within school budgets remain with the elected school boards. The budget development processes for schools, as well as the working relationships between the school boards and local legislative bodies, nevertheless could be made more open and collaborative. School officials could make budget documents more accessible to the public by posting them on the Internet. Some people interviewed believe that the process works better when the legislative body communicates regularly with the school board through an education committee or by having a member attend meetings of both groups. Organizations that provide training for county commissions and city councils, as well as those that train school board members, could examine present training curricula and consider whether there are additional ways to help each group understand their own and each other's responsibility and authority.

The budget development processes for schools, as well as the working relationships between the school boards and local legislative bodies, could be made more open and collaborative.

Evolution of Authority and Accountability for School Funding

Educating citizens is one of government's most important functions. Not only does it consume a large portion of state and local government budgets, it affects everything from economic development to the health of citizens. Tennessee's constitution, Article 11, Section 12, declares both the state's intent and its responsibility for educating children:

> The State of Tennessee recognizes the inherent value of education and encourages its support. The General Assembly shall provide for the maintenance, support and eligibility standards of a system of free public schools.

Although this language was added in 1978, Tennessee's constitution has included provisions declaring the importance of education and making it the General Assembly's responsibility since 1834. The General Assembly has delegated this responsibility to local elected school boards, giving them authority to operate schools and holding them accountable for their success, but unlike legislatures in most other states, it does not allow school boards to fund schools. That authority lies with the general city and county governments for all but the fourteen special school districts created by the legislature. Because school systems often consume the biggest portion of local revenue, there is a natural tension between school officials who want to provide better educational services and county commissions or city councils who want to keep taxes as low as possible, often questioning how school systems spend taxpayers' money. Administrative costs, like other costs considered outside the classroom, are subject to particular attention, perhaps because their value isn't as obvious as the value of teachers.

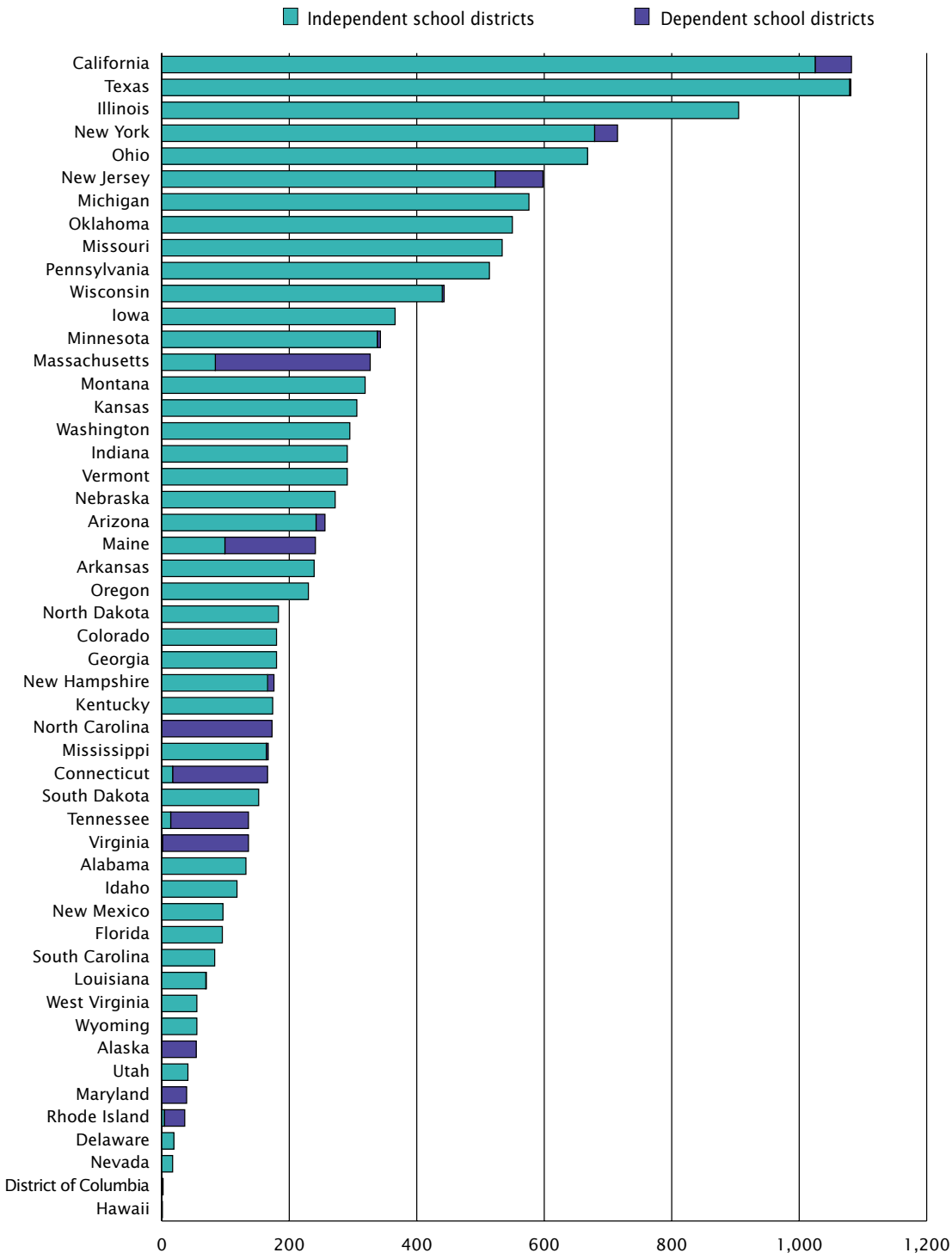
Tennessee is one of only nine states in which most school systems are dependent on a local government.

Taxing Authority in Most Other States Lies Mainly with Independent School Districts

The relationship between Tennessee's local legislative bodies and school boards has evolved over many years and is different from that in most other states. The US Census Bureau, in its periodic Census of Governments, designates whether school systems are dependent (relying on another government for funding) or independent (able to raise and appropriate their own funds).[3] Most or all of the school boards in 40 states are considered independent. Hawaii has only one school system, funded entirely by the state. Tennessee is one of only nine states in which most school systems are dependent on a local government. See figure 1. With the exception of Tennessee's 14 special school districts, all of Tennessee's school systems are dependent on a city or a county government for funding.

[3] Hogue 2013.

Figure 1. Total Number of Public School Systems by State



Source: U.S. Census Bureau, 2012 Census of Governments: Organization Component.

Of the eight other states where the majority of school systems are considered dependent, Connecticut, Massachusetts, North Carolina, Rhode Island, and Virginia do not allow the local legislative body to alter specific items of the school budget. In Maine and Alaska, home-rule cities may alter line items if they are empowered to do so by their charters. Maryland allows all local legislative bodies to alter school budget line items.[4]

Accountability for State and Federal Requirements

Tennessee's legislature, exercising its authority to create a statewide system of education, has given school systems considerable authority to meet the standards imposed on them and asks local legislative bodies only to fund them. Local legislative bodies do not carry the weight of responsibility—are not accountable—for meeting the state's education standards other than its funding standards. Under Tennessee's system, school boards have both the authority and the responsibility to educate children and are the entities the state holds accountable for the success or failure of its children.[5] The importance of providing sufficient authority to meet accountability standards when delegating responsibility to subordinates is widely recognized. As E. F. Ortiz says, "Delegation of authority is a prerequisite for the successful implementation of results-based management. To be accountable for results, managers have to be duly empowered through the clear delegation of authority in all areas. . . ."[6] George Jones and John Stewart writing in *Public Money and Management* describe the link between responsibility and accountability thus:

Tennessee's school boards are responsible for educating children and are the entities the state holds accountable for the success or failure of its children.

> Where there is responsibility there is a need for accountability as to how that responsibility has been exercised. Responsibility defines the boundaries of accountability. One should not be held accountable for matters beyond one's responsibility, but one should be held accountable for matters within it.[7]

To fulfill its constitutional obligations for public education, the General Assembly has passed a host of laws, comprising an entire title of Tennessee Code Annotated. In 1992, responding to a lawsuit filed against the state by 77 small, rural school systems,[8] the General Assembly passed the Education Improvement Act, perhaps the most sweeping school reform legislation in Tennessee's history.[9] With that Act, the General Assembly

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[4] Review of other states' statutes and communication with appropriate education officials.
[5] Tennessee Code Annotated, Sections 49-2-203 and 49-1-611.
[6] Ortiz et al. 2004.
[7] Jones and Stewart 2009.
[8] Tennessee Small School Systems, et al., Plaintiffs-Appellants v. Ned Ray McWherter, et al. 851 S.W.2d 139 (1993). See also Lyons et al. 2001.
[9] Tennessee Public Acts, 1992, Chapter 535.

met its responsibility to provide for a system of free public schools by establishing a new funding formula, creating a new local governance structure for public education, and enacting a new accountability system requiring local schools and school systems to meet state standards and goals. The Act created a burden of accountability and a level of scrutiny not imposed on any other public entity. If school boards do not meet the state's standards, the state can take control of their schools. In exchange for increased levels of state oversight, however, the General Assembly and the State Board of Education gave local boards greater autonomy to manage their school systems by removing earmarks on state funding[10] and repealing 3,700 rules and regulations, thus "allowing individual schools to determine everything from how many minutes to teach reading to the appropriate square footage of classrooms."[11]

In addition to meeting state requirements, school systems must also comply with federal laws, including the Elementary and Secondary Education Act (reauthorized in 2001 as the No Child Left Behind Act), the Individuals with Disabilities Education Act, Titles VI and VII of the Civil Rights Act of 1964, Title IX of the Educational Amendments of 1972, and the Family Education Rights and Privacy Act. Each of these laws carries with it a set of complex regulations that school administrators must understand in order to deliver needed services to students and protect their rights and privacy.

Existing Prohibitions Against Line-Item Alterations and Revisions

Tennessee's school systems are associated with a variety of local government structures, including counties, cities, and special districts. Special school districts have more autonomy and do not need the approval of a city or county legislative body to adopt a budget. Like city school systems, they are partially funded by county governments, but unlike either county or city school systems, they have their own taxing authority subject to limits set by the state legislature in private acts. Even the counties and cities, however, are not uniform in their structure or fiscal operations, deriving their various authorities from statutes, private acts, and charters. All school systems are overseen by an elected school board that appoints a director of schools.

No matter which law governs a county's budgeting and accounting systems, various courts have confirmed that the county legislative body has the authority to raise and allocate funds for the school system but does not have authority to amend a school system's budget except for altering or revising the total. In practice, however, local officials acknowledge that

[10] Green et al. 1995.
[11] Lyons et al. 2001.

by refusing to approve the budgets as submitted, coupled with voiced concerns over particular items, they are able to wield a great deal of influence over specific items anyway.

General statutes governing the appropriation and disbursement of county funds are found in Tennessee Code Annotated, Sections 5-9-401 through 407. Counties may also voluntarily adopt one of three other fiscal systems established in statute:

- the County Budgeting Law of 1957 (Tennessee Code Annotated, Sections 5-12-101 through 5-12-114),
- the County Financial Management System of 1981 (Tennessee Code Annotated, Sections 5-21-101 through 5-21-130), and
- the Local Option Budgeting Law of 1993 (Tennessee Code Annotated, Sections, 5-12-201 through 5-12-217).

Local officials acknowledge that by refusing to approve the budgets as submitted, coupled with voiced concerns over particular items, they are able to wield a great deal of influence over specific items anyway.

The particular system adopted affects the amount of fiscal and administrative autonomy the school system has from the general county government. The 1981 Act, which has been adopted by 23 counties,[12] is the most centralized and gives the general county government the most control, and yet even under it, the school board retains control over line items within its budget. A central finance department administers all funds handled by the county trustee, including school funds. A county financial management committee that includes four members appointed by the commission, the county mayor, the director of schools, and the highway supervisor establishes policies and procedures to implement a sound, efficient financial system and appoints a director of finance.[13] But even as recently as 2012, language was added in Section 5-21-111 to clarify that authority over line items within the school budget is vested in the elected school board, and the county legislative body can change only the total:

> The county legislative body may alter or revise the proposed budget except as to provision for debt service requirements and for other expenditures required by law. However, when reviewing the proposed budget of the county department of education, ***the county legislative body may only alter or revise the total amount of expenditures*** as proposed and such alterations or revisions shall comply with state law and regulations. Upon alteration or revision of the proposed budget of the department of education, the director of schools shall

[12] University of Tennessee County Technical Assistance Service. Note that Wilson County excludes schools.

[13] These are described in greater detail on the website of the University of Tennessee County Technical Assistance Service.

> submit a revised budget within the total expenditures approved by the county legislative body within ten (10) days. ***If the revised budget complies with the amount of expenditures as adopted by the county legislative body, the revised budget will become the approved budget for the county department of education.*** (emphases added)

The statutory relationship between municipal legislative bodies and their school systems, described in Tennessee Code Annotated, Section 6-56-204(b), is more direct about the matter and clearly grants no authority over line items within the school budget to city councils:

> ***The governing body shall have no authority to modify or delete any item of the school estimates*** and shall have the power to modify only the total amount of the school budget, except that in no event shall a reduction in the school budget exceed the total sum requested by the board of education from current municipal revenues. (emphasis added)

Tennessee Code Annotated, Section 6-36-113, governs school budgets for modified city-manager-council charters and similarly limits control over line items to the elected school board:

> The city school budget submitted by the board of education through the city manager to the city council shall include estimates of all school revenues, as well as estimates of expenditures necessary for the operation of the school system for the next fiscal period. ***Neither the city manager nor the city council shall have any authority to modify or delete any item of the school estimates***, and the council shall have the power to modify only the total amount of the school budget, except that in no event shall a reduction in the school budget exceed the total sum requested by the board of education from current city tax revenues. (emphasis added)

Two court decisions interpreting these and related statutes clearly establish that local legislatures do not have authority to alter individual line items within school system budgets. In 1994, the Morgan County Board of Commissioners believed they had the legal right to change the budget of the county board of education in any manner they chose, including by

changing line items.[14] The Court of Appeals ruled that the authority to control a school system's operation rests with the board of education and "***if the county commissioners were allowed to revise line items, it would amount to a complete abrogation of the powers of the Board to control the school system.***" (emphasis added) The court cited an earlier case, *State ex rel. Boles v. Groce* (1925), which said that

> the county board of education is a separate and distinct entity from that of the county court,[15] created by the State, with well-defined powers and duties, over which the county court has no supervisory jurisdiction.[16]

If the county commissioners were allowed to revise line items, it would amount to a complete abrogation of the powers of the Board to control the school system.

Morgan County Board of Commissioners v. Morgan County Board of Education (Tenn. Ct. App. 1994).

A second case, the *Putnam County Education Association v. Putnam County Commission* (2005), dealt specifically with vetoes of school budget line items. In this case, the association contended that the Putnam County Commission had exercised a line-item veto over the Putnam County Board of Education's budget, thereby usurping the school board's authority to administer the schools, as well as breaching an agreement with the association.[17] At issue was $30,000 to fund medical insurance premiums for retired teachers for the 2000-01 budget. Although the court dismissed the plaintiffs' assertion that the commission exercised a line-item veto, it reaffirmed the separation of function and authority between the county commission and school board:

> Public school systems within the state of Tennessee were established by the Constitution of the State of Tennessee. *See* Art. 11., § 12, Tenn. Const. Although counties were also established as arms of state government, counties were statutorily created by the state legislature, rather than by the state constitution. *State v. Stine*, 200Tenn. 561, 292 S.W.2d 771, 772 (1956); *Bayless v. Knox County*, 199 Tenn. 268, 286 S.W.2d 579, 587 (1955). . . *Rollins*, 967 F.Supp. at 996. Counties and school systems perform separate functions. *Hill v. McNairy County*, 2004 WL 187314, at *2. ***The fact that there are financial connections between a local school system and local government does not detract from the essentially separate functions of these two entities.*** (emphasis added)

[14] Morgan County Board of Commissioners v. Morgan County Board of Education, 1994 Tenn. App. LEXIS 183 (Tenn. Ct. App. 1994).
[15] Note that county commissions were formerly called county courts.
[16] State ex rel. Boles v. Groce, 152 Tenn. 566, 280 S.W. 27, 1925 Tenn. LEXIS 10 (Tenn. 1925).
[17] Putnam County Education Association v. Putnam County Commission, 2005 Tenn. App. LEXIS 450 (Tenn. Ct. App. 2005).

Other Checks Available to Local Legislative Bodies

Even though local legislative bodies lack authority to alter or revise specific budget line items, state law gives them several ways to oversee and influence school system expenditures. The budget process itself provides many opportunities to question and challenge the various expenditures and voice opposition. And if school boards want to shift funds between major categories during the school year, they must seek approval from the local legislative body.[18] Several specific statutes give county commissions' additional authority over school finances:

- Required quarterly expenditure reports. Tennessee Code Annotated, Section 49-2-101, provides that the county commission shall "require the county board of education, through the county director of schools, to make a quarterly report of the receipts and expenditures of the public school funds, the needs of the county elementary and the county high schools, the progress made in their development and other information as to the administration of the public schools that it may require." (This requirement is mirrored in Tennessee Code Annotated, Section 49-2-301(b)(1)(S), pertaining to duties of the director of schools.)
- Audit authority. Tennessee Code Annotated, Section 49-2-101(3), gives further authority to the county commissions through their finance committees to "examine the accounts of the county board of education quarterly, or at any other time it may appear that the county board is misusing any of the public school funds, or exceeding the budget adopted by the county legislative body." In January 2014, the Attorney General issued an opinion saying that this statute "establishes the authority to audit the accounts of the entire county school board. Consequently, it appears manifest that this statute also confers upon the county legislative body the authority to direct that an audit of a single department or division within the county school board be performed."[19]

Interviews with various stakeholders indicate that the school budget approval process works better in some jurisdictions than in others. Some local government officials believe that by establishing formal methods of communication between the local legislative body and the school board—for example, through an education committee or a member representative who acts as a liaison—can make the process more open and interactive. Others felt that counties that had adopted the 1981 Financial Management Act, the most centralized of the optional county budget acts, had better

Even though local legislative bodies lack authority to alter or revise specific budget line items, state law gives them several ways to oversee and influence school system expenditures.

Establishing formal methods of communication between the local legislative body and the school board can make the process more open and interactive.

[18] Tennessee Code Annotated, Section 49-2-301(W)(ii). See also Opinion No. 99-100, Office of the Attorney General and Reporter, State of Tennessee.
[19] Opinion No. 14-01, Office of the Attorney General and Reporter, State of Tennessee.

deliberation between the two bodies. The various organizations that provide training to local legislative body members and school board members might also consider ways to help both bodies better understand their roles. Materials used by the Tennessee School Boards Association to train new school board members include suggestions for improving work relationships with local legislative bodies.[20] Materials used by the County Technical Assistance Service (CTAS) to train county commissioners also include some information on the roles of each group but focus primarily on the Basic Education Program funding formula and other funding sources. School board members are required to attend training,[21] but county commissioners are not.

Open communication between local legislative bodies and school boards could improve the availability and understandability of their budgets and fiscal information to the general public, which could allay many concerns. Most of Tennessee's school systems have websites,[22] but as the Commission's 2013 report *Government Transparency: Can One Size Fit All?* notes, few of them publish budget or financial information on those sites. That report cited Michigan and Texas as two states that require school systems to make budgetary information more publicly accessible, and it encouraged Tennessee governments to develop websites that are "comprehensive, understandable, and usable, but implemented with the least possible cost." [23]

Open communication between local legislative bodies and school boards could improve the availability and understandability of their budgets and fiscal information.

Proposed Legislation

Two bills were introduced in 2014 by members of the 108th General Assembly to change the historical balance of authority between local legislative bodies and most school boards in Tennessee by giving city councils and county commissions authority to revise or amend at least some school budget line items. Neither would have changed the accountability requirements placed on any of those governmental entities. The first bill to move through the legislature's committee structure, Senate Bill 1935 by Johnson, was referred by the Senate State and Local Government Committee to the Commission for study. Its companion, House Bill 2250 by Casada, was passed by the House Local Government Committee and referred to the Education Committee where it was never taken up. Those bills would have given some county and municipal legislative bodies authority to alter or revise administrative line items within school systems' budgets if administrative spending exceeded 10% of the total budget, excluding debt service requirements and other expenditures required by law. See appendix B.

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[20] Tennessee School Boards Association 2014.
[21] Tennessee Code Annotated, Section 49-2-202(a)(6).
[22] For links to school systems, see website of Tennessee School Boards Association.
[23] Detch et al. 2013.

The bills' sponsors suggested that additional control over school system administrative spending is needed to ensure that maximum dollars are spent on instruction rather than bureaucracy. They said the bills would provide greater transparency for dollars spent outside the classroom.[24] They also noted some research by The Beacon Center of Tennessee, a non-profit think tank with a focus on free-market approaches to public policy that indicated an increase in administrative spending over time.[25]

The bill applied to all municipalities that operate school systems but only to those counties that had adopted one of the three optional fiscal administration laws. It did not include counties operating under general law, private act, or charter, nor did it include special school districts. The chairman of the Senate State and Local Government Committee noted this gap in the bill among a number of reasons for referring it to the Commission and questioned whether that gap violated Article 11, Section 8, of the Tennessee Constitution:

> The Legislature shall have no power to suspend any general law for the benefit of any particular individual, nor to pass any law for the benefit of individuals inconsistent with the general laws of the land; nor to pass any law granting to any individual or individuals, rights, privileges, immunitie [immunities], or exemptions other than such as may be, by the same law extended to any member of the community, who may be able to bring himself within the provisions of such law.

Because the three county budget acts are optional and the counties that have adopted them could choose on their own to avoid the requirements of the bill by rescinding adoption of the optional budget acts and returning to operating under general law, it does not appear that the bill conflicts with this provision of the constitution. Nevertheless, a reason for including some counties and not others is not readily apparent and may have been an oversight.

The chairman also expressed concern that the bill could unintentionally hurt smaller counties because they tend to have higher administrative costs. Other legislators expressed concern that the bill could diminish the statutory duties of the school board and would give one elected body power over another.[26]

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[24] Interview with Senator Jack Johnson, April 29, 2014 and testimony of Representative Glen Casada in House Local Government Subcommittee, March 19, 2014.

[25] Clark and Gilbert 2013. Note that this report recommends including categories such as debt service and capital outlay in the calculation of total expenditures, which would not have been included according to the referred bill.

[26] Senate State and Local Government Committee, March 25, 2014.

The second bill, House Bill 2293 by Durham, would have authorized certain local legislative bodies to alter or revise line items of proposed education budgets if the line items were allocated for lobbying expenditures. See appendix A. Like the bill addressing administrative costs, this bill applied to all municipalities that operate school systems but only to those counties that had adopted one of the three optional fiscal administration laws. It did not include counties operating under general law, private act, or charter, nor did it include special school districts. House Bill 2293 made its way to the House floor where it failed in a close vote after being heavily amended. The House adopted amendments to exclude the Tennessee School Boards Association and the Tennessee Organization of School Superintendents, as well as one requiring boards of education to attach forms detailing lobbying expenditures included in their proposed budgets. House members offered several amendments to exclude specific counties, but only one passed; it exempted Tennessee's four largest counties. Its companion, Senate Bill 2525 by Bell, made it to the Senate's regular calendar but was returned to the Senate Calendar Committee after the House version failed. Although much of the discussion surrounding these bills focused on the various lobbying groups and whether they should be targeted, many of the more general concerns raised about the legislation that targeted administrative costs were raised about these as well, including the constitutional concern about including only certain school systems.

A Closer Look at Administrative Costs

From 1999 through 2013, statewide administrative costs as a percent of total costs averaged 9.6%.

The bill referred to the Commission specifies administrative spending "as defined in the department of education's annual statistical report" but emphasizes that "administrative spending includes but is not limited to expenditures for board of education services, the office of superintendent, office of the principal, and human resources support services." In practice, the Department of Education's Annual Statistical Report (ASR) does not explicitly define administrative costs but includes tables for administrative expenditures from which a definition may be drawn: general administration includes the board of education and the office of the superintendent, business administration includes fiscal services and human resources (personnel), and school administration includes the office of the principal. Although the bill does not specifically list fiscal services as an administrative expenditure, it is included in the administrative cost tables of the ASR. (For more information about administrative cost categories see appendix C.)

Actual administrative costs

An August 2014 report, *Administrative Spending in Tennessee K-12 Education* by the Tennessee Comptroller's Offices of Research and Education

Accountability finds that over the 15-year period from 1999 through 2013, statewide administrative costs as a percent of total costs averaged 9.6%. The exceptions tend to be the smallest school systems, many of which operate only one school. Although the statewide rate increased 1.9 percentage points over the 15 years, Tennessee spent a smaller percentage on administration overall (9.3%) than either the Southeast (9.8%) or the nation (10.5%) in 2011, the most recent year that national comparisons were available.

For 2012-13, administrative costs as a percentage of total current expenditures as reported in the ASR ranged from 4.8% in the Loudon County school system to 14.2% in the Etowah school system. As worded in the bill, administrative costs from the ASR are to be compared to "the total proposed budget." That phrase is not defined and leaves open to question whether to include capital projects, debt service, community services, early childhood expenditures, or transfers. The percentages calculated here are based on total current expenditures from the ASR and do not include those amounts.

As shown in the table below, the lowest percentage for the five-year period 2008-09 through 2012-13 was 4.3% for Loudon County in fiscal year 2008-09; the highest percentage, not counting the Achievement School District (ASD), was 14.2% for South Carroll Special School District in fiscal year 2011-12 and 14.2% for the Etowah school system in fiscal year 2012-13. The ASD is a state-run school system that allows the Commissioner of Education to remove consistently low performing schools from their home school systems to be managed by the department or to authorize charter schools to serve the students. Its administrative expenditures were 65.8% of the total for fiscal year 2012-13.

Administrative Expenditures as a Percent of Total Current Expenditures
by Fiscal Year

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Achievement School District*					65.8%
Etowah	12.4%	12.4%	13.5%	13.8%	14.2%
Rogersville	12.0%	11.6%	12.2%	12.4%	13.3%
Alamo	11.5%	12.1%	11.4%	12.0%	13.0%
Fayetteville	11.9%	11.6%	10.5%	11.5%	12.7%
Richard City SSD	11.4%	12.1%	10.8%	12.7%	12.6%
South Carroll SSD	12.5%	12.1%	12.0%	14.2%	12.6%
Milan SSD	11.9%	11.4%	12.2%	11.9%	12.3%
Bristol	9.9%	9.7%	9.9%	11.2%	11.9%
Humboldt	11.9%	10.8%	10.5%	11.7%	11.8%
Carroll County	10.7%	10.7%	10.7%	11.6%	11.7%
Bradford SSD	12.4%	11.1%	11.5%	10.5%	11.4%
Lenoir City	11.1%	11.2%	11.0%	11.1%	11.2%
Memphis	9.2%	9.5%	9.9%	10.1%	11.0%
Crockett County	10.5%	10.5%	10.0%	10.0%	11.0%
Moore County	10.4%	10.0%	10.8%	10.9%	10.9%
Manchester City	11.0%	10.9%	11.0%	10.7%	10.9%
Franklin SSD	10.7%	10.9%	11.1%	10.9%	10.9%
Trousdale County	10.0%	10.3%	10.4%	9.6%	10.8%
Shelby County	10.7%	10.6%	10.3%	10.2%	10.8%
Sevier County	9.7%	9.6%	10.3%	9.9%	10.8%
Union City	9.8%	9.6%	9.5%	10.0%	10.6%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Clinton	8.8%	8.7%	9.1%	10.3%	10.6%
Lake County	10.0%	10.0%	10.1%	10.0%	10.5%
Maury County	9.9%	10.2%	9.8%	10.2%	10.5%
Bells	11.2%	10.4%	10.3%	10.4%	10.4%
Elizabethton	9.5%	9.4%	9.7%	9.5%	10.4%
Lebanon SSD	9.6%	9.2%	9.6%	10.5%	10.4%
Unicoi County	10.1%	9.6%	9.8%	9.7%	10.3%
Lexington	9.0%	9.4%	9.9%	10.0%	10.2%
West Carroll SSD	10.0%	9.6%	9.6%	10.0%	10.2%
Houston County	10.1%	10.4%	10.2%	10.7%	10.2%
Cannon County	10.1%	9.9%	10.1%	10.2%	10.2%
Clay County	9.3%	9.1%	8.9%	9.3%	10.2%
Dyersburg	8.0%	8.1%	8.0%	8.4%	10.1%
Sullivan County	9.1%	9.0%	9.3%	9.6%	9.9%
Overton County	10.0%	9.7%	8.9%	10.2%	9.9%
Campbell County	8.3%	8.3%	8.8%	9.8%	9.9%
Greenville	9.8%	9.8%	10.0%	10.0%	9.9%
Tullahoma	9.0%	9.2%	8.9%	9.8%	9.9%
Perry County	9.3%	9.4%	9.2%	9.5%	9.8%
Johnson County	9.9%	10.1%	9.9%	10.0%	9.8%
Oneida SSD	9.9%	10.1%	9.9%	10.0%	9.7%
Jackson County	9.2%	9.3%	9.0%	9.4%	9.6%
Oak Ridge	9.4%	9.0%	9.3%	9.0%	9.6%
Polk County	8.8%	9.0%	9.2%	9.5%	9.5%
Hawkins County	9.2%	8.9%	9.1%	9.2%	9.5%
Smith County	8.8%	8.7%	8.4%	9.1%	9.4%
Haywood County	10.0%	9.1%	9.0%	9.2%	9.4%
Sweetwater	9.1%	8.9%	9.0%	9.2%	9.4%
Maryville	8.6%	8.7%	9.9%	9.3%	9.4%
Huntingdon SSD	8.7%	8.4%	8.2%	9.2%	9.3%
Montgomery County	9.5%	9.3%	9.1%	8.9%	9.3%
Alcoa	9.6%	9.1%	9.7%	9.5%	9.3%
Trenton SSD	9.4%	8.9%	8.9%	9.2%	9.2%
Hamilton County	10.4%	9.3%	9.0%	9.2%	9.2%
Coffee County	8.9%	8.8%	9.0%	8.9%	9.2%
McKenzie SSD	9.6%	8.7%	9.2%	9.0%	9.2%
Sumner County	9.0%	9.3%	8.9%	9.1%	9.2%
Marion County	8.9%	8.8%	8.8%	9.2%	9.1%
Greene County	8.8%	8.3%	8.9%	8.3%	9.1%
Van Buren County	8.9%	8.6%	8.8%	9.1%	9.1%
Williamson County	9.0%	9.0%	9.0%	9.1%	9.0%
Chester County	8.7%	8.7%	8.6%	8.9%	9.0%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Roane County	8.7%	8.9%	8.9%	8.9%	9.0%
Davidson County	8.2%	8.1%	8.2%	8.2%	9.0%
Lawrence County	7.8%	7.4%	8.0%	8.6%	9.0%
Knox County	9.2%	8.7%	9.0%	9.0%	9.0%
Fayette County	7.1%	7.8%	8.4%	8.4%	9.0%
Giles County	8.0%	7.5%	7.4%	7.5%	8.9%
Bedford County	6.3%	6.0%	7.6%	9.0%	8.9%
Morgan County	8.5%	7.6%	8.0%	8.2%	8.8%
Anderson County	8.3%	8.3%	8.5%	8.9%	8.8%
Madison County	8.4%	8.1%	8.7%	8.4%	8.8%
Obion County	8.7%	8.5%	8.1%	8.6%	8.7%
Stewart County	8.3%	8.3%	8.6%	7.9%	8.7%
Dyer County	9.0%	8.8%	9.0%	8.7%	8.7%
Marshall County	7.5%	8.2%	7.8%	7.7%	8.7%
Blount County	8.0%	7.8%	8.2%	8.6%	8.7%
Johnson City	8.2%	7.6%	8.1%	8.3%	8.7%
Claiborne County	7.6%	7.2%	6.8%	7.4%	8.6%
DeKalb County	8.0%	7.7%	7.5%	8.4%	8.6%
Gibson SSD	8.4%	8.5%	8.7%	8.6%	8.6%
Athens	8.6%	8.3%	8.6%	9.1%	8.6%
Bledsoe County	7.4%	7.2%	7.6%	8.4%	8.5%
Lewis County	7.8%	7.7%	7.8%	8.2%	8.5%
Newport	7.6%	7.7%	7.7%	7.5%	8.5%
Hardin County	8.0%	8.4%	8.1%	8.5%	8.5%
Lauderdale County	8.2%	8.4%	8.0%	8.3%	8.5%
Wilson County	8.8%	8.6%	8.3%	8.2%	8.4%
Benton County	7.7%	7.4%	7.7%	8.1%	8.3%
Carter County	8.0%	8.0%	7.8%	8.1%	8.3%
Tipton County	8.3%	8.3%	7.8%	8.2%	8.3%
Henry County	8.1%	8.0%	7.6%	7.9%	8.2%
Robertson County	8.1%	8.2%	8.1%	8.0%	8.2%
Kingsport	8.5%	8.4%	8.3%	8.4%	8.2%
Murfreesboro	8.7%	8.2%	8.3%	8.3%	8.2%
Dickson County	8.1%	8.0%	8.1%	8.1%	8.2%
Franklin County	8.4%	7.9%	7.7%	7.9%	8.2%
Hollow Rock-Bruceton SSD	7.9%	7.7%	7.0%	8.7%	8.1%
Putnam County	8.4%	8.3%	7.9%	7.9%	8.0%
Cocke County	8.0%	7.7%	7.6%	8.0%	8.0%
Jefferson County	8.4%	8.3%	8.1%	8.0%	8.0%
Hardeman County	7.8%	8.0%	8.0%	7.7%	7.9%
Dayton	7.1%	7.0%	6.8%	8.0%	7.9%
Fentress County	7.7%	7.2%	7.4%	7.6%	7.9%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Hamblen County	8.7%	7.6%	7.3%	7.4%	7.9%
Cumberland County	8.4%	7.7%	7.7%	7.8%	7.8%
McMinn County	7.4%	7.4%	7.6%	7.4%	7.8%
Cleveland City	7.6%	7.3%	7.2%	7.4%	7.7%
Rhea County	7.3%	7.1%	7.5%	7.4%	7.7%
Hancock County	7.7%	7.2%	7.2%	7.0%	7.7%
Pickett County	7.8%	7.5%	7.2%	7.8%	7.7%
Humphreys County	7.4%	7.5%	7.3%	7.4%	7.7%
Macon County	7.3%	7.5%	7.7%	7.6%	7.6%
Hickman County	5.4%	5.2%	5.0%	7.0%	7.5%
Cheatham County	8.5%	7.4%	7.4%	7.9%	7.5%
White County	6.7%	6.5%	6.6%	6.6%	7.3%
Rutherford County	7.8%	7.3%	7.2%	7.4%	7.3%
Paris SSD	8.2%	7.6%	7.6%	7.3%	7.2%
Grundy County	7.0%	6.8%	6.8%	6.8%	7.2%
Washington County	7.7%	7.6%	8.0%	8.0%	7.2%
Lincoln County	6.7%	6.5%	7.0%	7.0%	7.1%
Sequatchie County	7.4%	7.1%	7.0%	7.0%	7.1%
Bradley County	7.2%	6.8%	6.9%	6.9%	6.9%
Union County	8.2%	7.7%	7.8%	6.8%	6.8%
Scott County	6.4%	6.6%	6.7%	6.8%	6.8%
Weakley County	6.0%	6.0%	6.4%	6.4%	6.5%
Warren County	6.9%	6.7%	6.7%	6.8%	6.5%
Henderson County	6.5%	6.2%	6.4%	6.2%	6.5%
Monroe County	6.4%	6.4%	6.5%	6.2%	6.4%
Meigs County	5.9%	5.8%	5.8%	6.2%	6.3%
Grainger County	6.2%	6.4%	6.5%	6.3%	6.3%
Decatur County	6.6%	6.8%	5.4%	5.2%	5.6%
McNairy County	5.4%	5.5%	5.4%	5.5%	5.6%
Wayne County	5.4%	5.3%	5.1%	5.4%	5.6%
Loudon County	4.3%	4.5%	4.6%	4.6%	4.8%
Statewide	**8.8%**	**8.6%**	**8.7%**	**8.8%**	**9.3%**

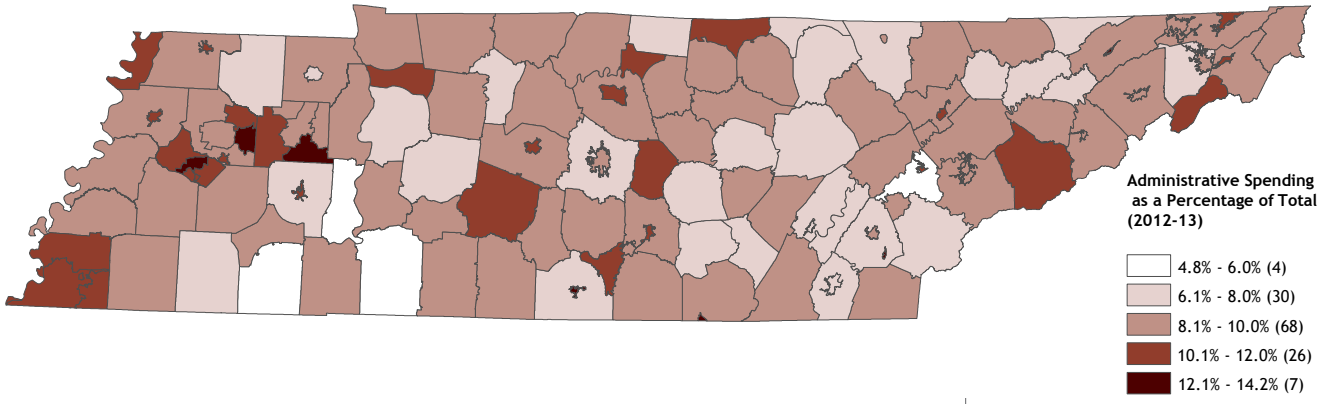
* 2013 was the first year that expenditures were reported for the Achievement School District.

Source: Annual Statistical Reports, Tennessee Department of Education, 2009-2013.

Note: SSD is special school district.

For 2012-13, statewide administrative expenditures were 9.3% of total operating expenditures with 85 school systems having administrative costs less than the statewide percentage. Thirty-five of 137 school systems, about one-fourth, including the ASD, had administrative expenditures greater than 10% of the total. Statewide administrative expenditures for the years 2008-09 through 2012-13 as a percentage of total current expenditures ranged from a low of 8.6% in 2009-10 to a high of 9.3% in 2012-13. The map on the next page further illustrates the variation in administrative costs across the state, showing that the majority of systems have administrative costs less than 10.0% but more than 8.1%.

Administrative Costs by School District, 2012-2013



Reasons administrative costs may vary

As suggested by this analysis, smaller school systems, as well as very large ones, tend to have higher than average administrative costs. An August 2014 report by Tennessee's Comptroller notes, "District-level administrative spending per pupil is more likely to be high for very small and very large districts." The Comptroller's analysis found that 64% of higher-administrative-spending districts are within either the bottom or the top fifth of school systems by enrollment.[27] Administrative expenditures are higher for the very smallest school systems because all school systems must meet certain state and federal requirements, regardless of size. Even the smallest systems must have a director of schools, for example. Systems that have more students, at least up to a point, are able to achieve some economy of scale because they can serve more students with the same number of administrators.

Smaller school systems, as well as very large ones, tend to have higher than average administrative costs.

In a 2002 report, the Arizona Auditor General analyzed twenty districts with particularly high or particularly low administrative costs, as well as fourteen with changing costs. The report found that most districts with particularly high costs had fewer than 600 students, while more than half of districts with particularly low costs had more than 5,000 students. Other factors that affected cost included salary and staffing levels, benefit costs, and purchased services. Smaller schools, rural or isolated locations, and significant amounts of federal impact aid were also associated with higher administrative costs.[28] A similar analysis of Florida school districts also found that smaller districts tend to have higher administrative costs.[29]

The efficiency to be achieved with larger numbers of students has a limit, however. Although experts disagree about the optimum size for school

[27] Wesson and Mattson 2014.
[28] Davenport et al. 2002.
[29] See also O'Connor 2012.

systems, some evidence indicates that very large districts also tend to have higher administrative costs. The Comptroller's report finds that some very large school systems in Tennessee have higher than average administrative costs although district size explains only a portion of the variation. (The report did not attempt to identify causes of higher spending.)

A report by the Washington State Auditor that focused on non-instructional costs, including administration, found that enrollment is the most significant predictor of non-instructional costs, followed by percentage of students eligible for free or reduced-price lunches, presence or absence of secondary schools, and students with limited English proficiency.[30] A report analyzing Texas school system administrative costs also found that higher administrative costs in large districts are associated with higher percentages of low-income students and higher student-mobility rates. In addition, systems with more teachers tend to have higher administrative expenditures.[31]

Functions such as communicating with parents may require greater resources in large districts. And at least in Tennessee, the large urban systems are home to more types of schools, such as magnet schools and schools that emphasize specific subject areas. Charter schools tend to be in the largest systems and typically have higher administrative costs, which would contribute to a system's overall administrative costs. One study by researchers from Michigan State University and the University of Utah found that charter schools on average spend nearly $800 more per pupil per year on administration and $1,100 less on instruction than traditional schools.[32] Metropolitan Nashville Public Schools reports that for the 2012-13 fiscal year, administrative costs as a percent of total current expenditures for charter schools were 28.3% compared with 9.0% for the district as a whole.[33] Shelby County Schools report that for the 2012-13 fiscal year, charter schools' administrative costs as a percent of total current expenditures were 28.2% compared with 13.4% for the district as a whole.[34] (This reflects the combined total of the former Memphis City Schools and Shelby County Schools, which merged effective July 1, 2013.)

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[30] Sonntag 2012.
[31] Dougherty no date.
[32] Arsen and Ni 2012.
[33] E-mail from Glenda Gregory, Director of Building and Financial Reporting, Metropolitan Nashville Public Schools, November 7, 2014.
[34] E-mail from Angela Carr, Director of Accounting and Reporting, Shelby County Schools, November 11, 2014.

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Persons Interviewed

Chuck Cagle, Attorney
Lewis, Thomason, King, Krieg, and Waldrop, P.C.

Rodney Carmical, Executive Director
Tennessee County Highway Officials Association

David Connor, Executive Director
Tennessee County Services Association

Charles Curtiss, Executive Director
Tennessee County Commissioners Association

Maryanne Durski, Executive Director of Local Finance
Tennessee Department of Education

Lee Harrell, Government Affairs Director
Tennessee School Boards Association

Lynn Holliday, Finance Consultant (retired)
County Technical Assistance Service
University of Tennessee

Leslie Holman, Chief Financial Officer
Williamson County Schools

Jack Johnson, State Senator
District 23

Joe Kimery, Assistant Director
Local Government Audit
Tennessee Comptroller of the Treasury

Wayne Miller, Executive Director
Tennessee Organization of School Superintendents

Libby McCroskey, Legal Consultant
County Technical Assistance Service
University of Tennessee

Lisa Nolen, Finance Director
Rutherford County

Justin Owen, President and Chief Executive Officer
The Beacon Center of Tennessee

Robin Roberts, Executive Director
County Technical Assistance Service
University of Tennessee

Wesley Robertson, Budget and Finance Consultant
County Technical Assistance Service
University of Tennessee

Jeff Sandvig, Assistant Superintendent for Budget and Finance
Rutherford County Schools

Ken Yager, State Senator
District 12

Appendix A: House Bill 2293/Senate Bill 2525
(addresses lobbying expenditures)

HOUSE BILL 2293

By Durham

AN ACT to amend Tennessee Code Annotated, Title 4; Title 5; Title 6; Title 7 and Title 49, relative to school budgets.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 5-21-111(e), is amended by deleting the subsection and substituting instead the following:

(e)

(1) The county legislative body may alter or revise the proposed budget except as to provision for debt service requirements and for other expenditures required by law. Except as provided in subdivision (e)(2), when reviewing the proposed budget of the county department of education, the county legislative body may only alter or revise the total amount of expenditures as proposed, and such alterations or revisions shall comply with state law and regulations. Upon the alteration or revision of the proposed budget of the department of education, the director of schools shall submit a revised budget within the total expenditures approved by the county legislative body within ten (10) days. If the revised budget complies with the amount of expenditures as adopted by the county legislative body, the revised budget will become the approved budget for the county department of education.

(2) If the proposed budget of a county department of education contains lobbying expenditures, then the county legislative body may alter or revise line items of the portion of the proposed budget allocated for lobbying expenditures. For purposes of this subdivision (e)(2), "lobbying expenditures" means funds

used to lobby, as defined in § 3-6-301, but also includes any dues paid to entities that lobby.

(3) The county legislative body shall finally adopt a budget in July.

SECTION 2. Tennessee Code Annotated, Section 5-12-109, is amended by adding the following language as a new subsection:

(d) If the proposed budget of a county department of education contains lobbying expenditures, then the county legislative body may alter or revise line items of the portion of the proposed budget allocated for lobbying expenditures. For purposes of this subsection (d), "lobbying expenditures" means funds used to lobby, as defined in § 3-6-301, but also includes any dues paid to entities that lobby.

SECTION 3. Tennessee Code Annotated, Section 5-12-209, is amended by adding the following language as a new subsection:

(c) Notwithstanding subsection (a), if the proposed budget of a county department of education contains lobbying expenditures, then the county legislative body may alter or revise line items of the portion of the proposed budget allocated for lobbying expenditures. For purposes of this subsection (c), "lobbying expenditures" means funds used to lobby, as defined in § 3-6-301, but also includes any dues paid to entities that lobby.

SECTION 4. Tennessee Code Annotated, Title 6, Chapter 54, Part 1, is amended by adding the following language as a new section:

6-54-142.

When reviewing the proposed budget of any local board of education, the legislative body of any municipality may alter or revise line items of the portion of the proposed budget allocated for lobbying expenditures. For purposes of this section, "lobbying expenditures" means funds used to lobby, as defined in § 3-6-301, but also includes any dues paid to entities that lobby.

SECTION 5. Tennessee Code Annotated, Section 6-56-204, is amended by deleting subsection (b) and by substituting instead the following:

(b)

(1) Except as provided in subdivision (b)(2), the governing body shall have no authority to modify or delete any item of the school estimates and shall have the power to modify only the total amount of the school budget, except that in no event shall a reduction in the school budget exceed the total sum requested by the board of education from current municipal revenues.

(2) If the proposed budget of a municipal board of education contains lobbying expenditures, then the governing body may alter or revise line items of the portion allocated for lobbying expenditures. For purposes of this subdivision (b)(2), "lobbying expenditures" means funds used to lobby, as defined in 3-6-301, but also includes any dues paid to entities that lobby.

SECTION 6. Tennessee Code Annotated, Title 7, Chapter 3, Part 1, is amended by adding the following language as a new section:

7-3-106.

When reviewing the proposed budget of any metropolitan board of education, the legislative body of any metropolitan government may alter or revise line items of the portion of the proposed budget allocated for lobbying expenditures. For purposes of this section, "lobbying expenditures" means funds used to lobby, as defined in § 3-6-301, but also includes any dues paid to entities that lobby.

SECTION 7. This act shall take effect July 1, 2014, the public welfare requiring it, and shall apply to budgets adopted for fiscal years beginning in 2015 and thereafter.

Appendix B: Senate Bill 1935/House Bill 2250
(addresses general administrative expenditures in excess of 10%)

SENATE BILL 1935

By Johnson

AN ACT to amend Tennessee Code Annotated, Title 4; Title 5; Title 6; Title 7 and Title 49, relative to school budgets.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF TENNESSEE:

SECTION 1. Tennessee Code Annotated, Section 5-21-111, is amended by deleting subdivision (e) in its entirety and by substituting instead the following:

(e)

(1) The county legislative body may alter or revise the proposed budget except as to provision for debt service requirements and for other expenditures required by law. Except as provided in (e)(2), when reviewing the proposed budget of the county department of education, the county legislative body may only alter or revise the total amount of expenditures as proposed and such alterations or revisions shall comply with state law and regulations. Upon alteration or revision of the proposed budget of the department of education, the director of schools shall submit a revised budget within the total expenditures approved by the county legislative body within ten (10) days. If the revised budget complies with the amount of expenditures as adopted by the county legislative body, the revised budget will become the approved budget for the county department of education.

(2) If the proposed budget of a county department of education contains administrative spending, as defined in the department of education's annual statistical report, in excess of ten percent (10%) of the total proposed budget, then the county legislative body may alter or revise line items of the portion of the

proposed budget allocated for administrative spending. For purposes of this subdivision (e)(2), administrative spending includes, but is not limited to, expenditures for board of education services, the office of the superintendent, office of the principal, and human resources support services.

(3) The county legislative body shall finally adopt a budget in July.

SECTION 2. Tennessee Code Annotated, Section 5-12-109(b), is amended by adding the following language as a new subdivision (2) and by redesignating the remaining subdivisions accordingly:

(2) If the proposed budget of a county department of education contains administrative spending, as defined in the department of education's annual statistical report, in excess of ten percent (10%) of the total proposed budget, then the county legislative body may alter or revise line items of the portion of the proposed budget allocated for administrative spending. For purposes of this subdivision, administrative spending includes, but is not limited to, expenditures for board of education services, the office of the superintendent, office of the principal, and human resources support services.

SECTION 3. Tennessee Code Annotated, Section 5-12-209, is amended by adding the following language as a new subsection (b) and by redesignating the remaining subsection accordingly:

(b) Notwithstanding subsection (a), if the proposed budget of a county department of education contains administrative spending, as defined in the department of education's annual statistical report, in excess of ten percent (10%) of the total proposed budget, then the county legislative body may alter or revise line items of the portion of the proposed budget allocated for administrative spending. For purposes of this subsection, administrative spending includes, but is not limited to, expenditures for board of education services, the office of the superintendent, office of the principal, and human resources support services.

SECTION 4. Tennessee Code Annotated, Title 6, Chapter 54, Part 1, is amended by adding the following language as a new section:

When reviewing the proposed budget of any local board of education, the legislative body of any municipality may alter or revise line items of the portion of the proposed budget allocated for administrative spending, as defined in the department of education's annual statistical report, if the administrative spending exceeds ten percent (10%) of the total proposed budget. For purposes of this section, administrative spending includes, but is not limited to, expenditures for board of education services, the office of the superintendent, office of the principal, and human resources support services.

SECTION 5. Tennessee Code Annotated, Section 6-56-204, is amended by deleting subsection (b) in its entirety and by substituting instead the following:

(b)

(1) Except as provided in subdivision (b)(2), the governing body shall have no authority to modify or delete any item of the school estimates and shall have the power to modify only the total amount of the school budget, except that in no event shall a reduction in the school budget exceed the total sum requested by the board of education from current municipal revenues.

(2) If the proposed budget of a municipal board of education contains administrative spending, as defined in the department of education's annual statistical report, in excess of ten percent (10%) of the total proposed budget, then the governing body may alter or revise line items of the portion allocated for administrative spending. For purposes of this subdivision, administrative spending includes, but is not limited to, expenditures for board of education

services, the office of the superintendent, office of the principal, and human resources support services.

SECTION 6. Tennessee Code Annotated, Title 7, Chapter 3, Part 1, is amended by adding the following language as a new section:

When reviewing the proposed budget of any metropolitan board of education, the legislative body of any metropolitan government may alter or revise line items of the portion of the proposed budget allocated for administrative spending, as defined in the department of education's annual statistical report, if the administrative spending exceeds ten percent (10%) of the total proposed budget. For purposes of this section, administrative spending includes, but is not limited to, expenditures for board of education services, the office of the superintendent, office of the principal, and human resources support services.

SECTION 7. This act shall take effect July 1, 2014, the public welfare requiring it, and shall apply to budgets adopted for fiscal years beginning in 2015 and thereafter.

Appendix C: Administrative Costs Defined by the Tennessee Department of Education

Which costs are administrative?

Calculating administrative costs depends on how administrative costs are defined. Various organizations that have analyzed administrative costs have not used the same definition and consequently have somewhat different results.

Administrative costs reported in the Department of Education's Annual Statistical Report also include items that several people interviewed stated are not administrative costs and should not be subject to alteration or adjustment by the funding body. These include the trustee's commission, self-insurance and workers' compensation. The trustee's commission, for example, is set by Tennessee Code Annotated, Section 8-11-110 and establishes the compensation to be paid to the trustee's office for handling school funds, except that Tennessee Code Annotated, Section 49-3-359(f) prohibits the trustee from collecting a fee for state funds generated through the Basic Education Program (BEP). School systems have no control over the amount of this fee, and, because of the BEP exemption, those school systems that receive lower proportions of their total funding from the state through the BEP would pay higher trustees' commissions, thus skewing the calculation of administrative costs as a percentage of the total.

A definition of administrative costs is summarized in the Department of Education, Office of Local Finance, *Standardized System of Accounting and Reporting* issued July 1, 2001. (In April 2014, the Executive Director of Local Finance for the Department of Education confirmed that the manual is still in effect. It defines administration as

General Administration

Board of Education

- Personal Services (Secretary to Board, Other Salaries and Wages, Board and Committee Member Fees, In-service training)
- Benefits (Social Security, State Retirement, Life Insurance, Medical Insurance, Dental Insurance, Unemployment Compensation Employer Medicare, Other Fringe Benefits.)
- Contracted Services (Audit Services, Dues and Memberships, Legal Services, Travel, Other Contracted Services)
- Supplies and Materials (Other Supplies and Materials)
- Other Charges (Judgments, Liability Insurance, Premium on Corporate Surety Bonds, Trustee Commissions, Workmen's Compensation Insurance, Criminal Investigation of Applicants, Refund to Applicant for TBI Criminal Investigation, Other Charges)

Office of the Director of Schools

- Personal Services (County Official/Administrative Officer, Assistants, Career Ladder Program, Secretaries, Clerical Personnel, Other Salaries and Wages, In-Service Training)
- Benefits (Social Security, State Retirement, Life Insurance, Medical Insurance, Dental Insurance, Unemployment Compensation, Employer Medicare, Other Fringe Benefits)

- Contracted Services (Communication, Dues and Memberships, Maintenance and Repair Services—Equipment, Postal Charges, Travel, Other Contracted Services)
- Supplies and Materials
- Other Charges (In-Service/Staff Development, Other Charges)
- Capital Outlay (Administration Equipment)

School Administration

Office of the Principal

- Personal Services (Principals, Career Ladder Program, Accountants/Bookkeepers, Assistant Principals, Secretaries, Clerical Personnel, Other Salaries and Wages, In-Service Training)
- Benefits (Social Security, State Retirement, Life Insurance, Medical Insurance, Dental Insurance, Unemployment Compensation, Employer Medicare, Other Fringe Benefits)
- Contracted Services (Communication, Dues and Memberships, Maintenance and Repair—Equipment, Postal Charges, Travel, Other Contracted Services)
- Supplies and Materials
- Other Charges (In-Service/Staff Development, Other Charges)
- Capital Outlay (Administration Equipment)

Business Administration

Fiscal Services

- Personal Services (Supervisor/Director, Internal Audit Personnel, Accountants/Bookkeepers, Purchasing Personnel, Secretaries, Clerical Personnel, Other Salaries and Wages, In-Service Training)
- Benefits (Social Security, State Retirement, Life Insurance, Medical Insurance, Dental Insurance, Unemployment Compensation, Employer Medicare, Other Fringe Benefits)
- Contracted Services (Data Processing Supplies, Dues and Memberships, Maintenance and Repair Services—Equipment, Travel, Other Contracted Services)
- Supplies and Materials (Data Processing Supplies, Office Supplies, Other Supplies and Materials)
- Other Charges (In-Service/Staff Development, Other Charges)
- Capital Outlay (Administration Equipment)

Central Support Services (includes personnel and technology departments)

- Personal Services (Supervisor, Computer Programmer, Data Processing Personnel, Clerical Personnel, In-Service Training, Other Salaries and Wages)
- Benefits (Social Security, State Retirement, Life Insurance, Medical Insurance, Dental Insurance, Unemployment Compensation, Employer Medicare, Other Fringe Benefits.)
- Contracted Services (Consultants, Data Processing Services, Operating Lease Payments, Maintenance and Repair Service—Equipment, Travel, Other Contracted Services.
- Supplies and Materials (Data Processing Supplies, Office Supplies, Other Supplies and Materials)
- Other Charges (In-Service/Staff Development, Other Charges)
- Capital Outlay (Administration Equipment, Data Processing Equipment, Other Equipment)