

# Tennessee School System Budgets: Authority and Accountability

Draft for Commission Review and Comment

DRAFT

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# Tennessee's School System Budgets: Authority and Accountability

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Tennessee's 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 used here, where local legislative bodies rather than independent school districts, raise taxes to fund school systems, is unlike the majority of other states. In all but nine states, most school boards have their own taxing authority independent of the governmental jurisdiction where located. Tennessee's approach appears to provide more oversight of school system expenditures, while assigning responsibility for school operations to the elected school board, which is accountable for school performance.

Although most of Tennessee's school systems are organized around local government jurisdictions, such as counties and cities, and receive some local funding, they are creatures of the state by constitution, established for the purpose of providing education, a state responsibility. The present separation of powers between the local legislative bodies and school boards provides a built-in check on education budgets. Although it sometimes leads to contentious interactions between the two elected bodies, the present system and its inherent negotiation process lead ultimately to compromise. Local legislative bodies lack authority to alter or revise specific budget line items, but they have complete control over the budget total. State law provides them several ways to learn about and question school expenditures, including through audits.

The budget process itself provides many opportunities to question and challenge the various expenditures and voice opposition. In addition, if school boards want to shift funds between major categories during the school year, they must seek approval from the local legislative body.<sup>1</sup> 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."<sup>2</sup> Consequently, in practice local legislative bodies, within this system, are able to exert considerable influence over how school boards spend their money.

Nevertheless, the Senate State and Local Government Committee of the 108<sup>th</sup> General Assembly referred a bill to the Commission for study that would have given some local legislative bodies authority to alter or revise administrative line items within school systems' budgets when administrative spending exceeds 10% of the total budget. Presently, local legislative bodies can revise only the total budget amount. Senate Bill 1935 by Johnson (House

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<sup>1</sup> Tennessee Code Annotated, Section 49-2-301(b)(1)(W)(ii). See also Opinion No. 99-100, Office of the Attorney General.

<sup>2</sup> Tennessee Code Annotated, Section 49-2-10(2).

Bill 2250 by Casada) would have changed the historical relationship between local legislative bodies and boards of education. See appendix.

The passage of such a bill would shift some of the local school board's authority for operating schools to the local legislative body without shifting a commensurate amount of accountability. The Education Improvement Act, passed in 1992, placed a heavy burden of accountability for school performance on local school boards. In order to meet stringent state and federal accountability standards, school boards need authority to determine how to spend funds allocated to them by the cities and counties. Giving local legislative bodies more control over specific budget items would leave school boards with all of the accountability but less control over the operations of their schools. George Jones and John Stewart writing in *Public Money and Management* note the linkages 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."

The local legislative bodies are responsible for raising and allocating funds for the operation of schools, subject to state minimum requirements. The present structure supports the concept of school boards having both responsibility and accountability for the education of students, while local legislative bodies bear both responsibility and accountability for funding schools. Allowing local legislative bodies to exercise more specific authority over portions of school system budgets would seem to blur these lines for both entities.

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 fifteen-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, authority over specific line items within school budgets should remain with the elected school boards; however, 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. 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 has ongoing communication with the school board through an education committee or a member who attends meetings of both groups. Organizations that provide training for county commissions and city councils, as well as those that train school board members could provide greater focus on the budget process itself to help each group understand their authority.

If greater emphasis were to be placed on administrative costs, the Department of Education and Comptroller of the Treasury would need to better define what constitutes administrative costs. Categories may need to be expanded or better defined to reflect recent changes in school operations, such as increased use of technology for both administrative and instructional purposes. Possible unintended consequences would also need to be considered. For example, a change in emphasis might motivate school systems to report fewer expenses as “administrative” or find ways to shift administrative costs into other parts of the budget so they are not reported as administrative expenditures.

In addition, if the General Assembly chooses to emphasize school system administrative costs to a greater extent, all school systems should be included. The referred bill included only cities, metropolitan governments, and counties that have adopted one of three optional county budgeting acts. It did not include special school districts, presumably because they are not dependent on local legislative bodies for budget approval, and counties that have not adopted one of the 3 optional budget acts or that operate under private act or charter.

### ***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 recruitment of business to the health of citizens. Tennessee’s constitution declares both the intent and responsibility for educating children:

[t]he 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.<sup>3</sup>

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.

Tennessee’s elected school boards are accountable for operating schools and have been given authority over them by the General Assembly, but local legislative bodies, also elected, must approve their budgets. Within any city or county government, the school system often consumes the biggest portion of local revenue, so its budget is a subject of great interest to the local legislative body that funds it. A natural tension exists 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. Because the legislative body must approve the school system budget, the process includes questions about how the school system spends its money. Administrative costs are particularly susceptible to scrutiny because they are clearly outside the classroom.

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<sup>3</sup> Tennessee Constitution, Article 11, Section 12.

### ***Most School Systems in Other States have their own Taxing Authority***

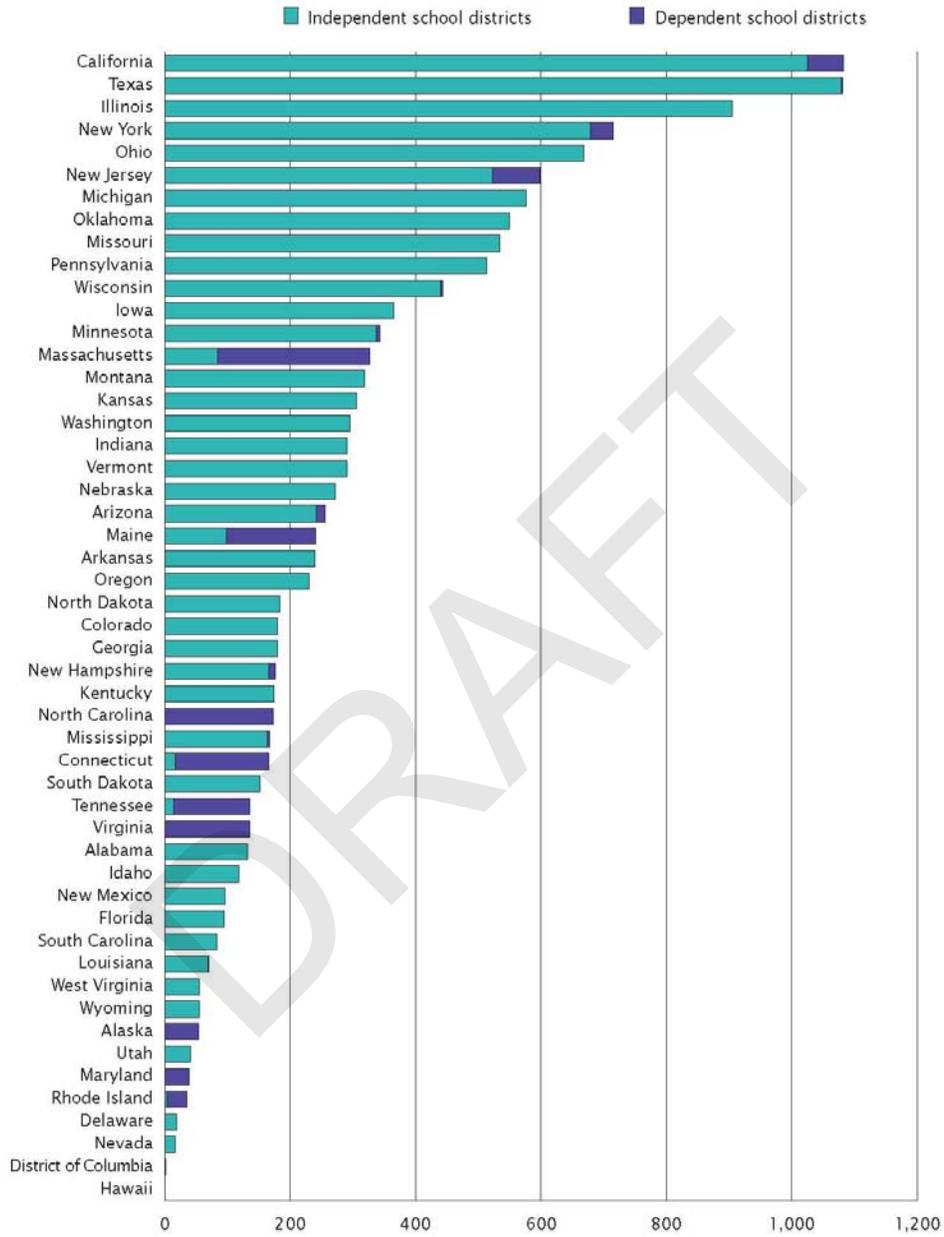
The relationship between Tennessee's local legislative bodies and school boards has evolved over many years and is different from most other states. The US Census Bureau in its periodic Census of Governments designates whether school systems are dependent (relying on another government for funding) or independent (having the ability to raise and appropriate their own funds).<sup>4</sup> 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 9 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.

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.

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<sup>4</sup> US Census Bureau, 2012 Census of Governments, pp.2-4

Figure 1.  
**Total Number of Public School Systems by State**



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

## ***Accountability for State and Federal Requirements***

The Tennessee legislature, when exercising its own authority to create a system of statewide education, has given school systems considerable authority to meet the standards imposed on them and asked 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 the funding standards. Under Tennessee’s system, school boards have been given both the authority and responsibility to educate children and are the entities that the state holds accountable for the success or failure of those children.<sup>5</sup> If the legislature shifts more authority to local legislative bodies, then some amount of accountability should be shifted with it. Writing about this concept, E. F. Ortiz states, “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.”<sup>6</sup> George Jones and John Stewart writing in *Public Money and Management* note the linkages between responsibility and accountability:

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.<sup>7</sup>

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, reacting to a lawsuit from 77 small rural school systems,<sup>8</sup> the General Assembly passed the Education Improvement Act, perhaps the most sweeping legislation affecting schools in Tennessee’s history.<sup>9</sup> With that action, the General Assembly 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 placed a burden of accountability and a level of scrutiny not applied to any other public function. 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 of student and school performance, however, the General Assembly gave local boards greater autonomy to manage their school systems by repealing 3,700 rules and regulations and “allowing individual schools to determine everything from how many minutes to teach reading to the appropriate square footage of classrooms.”<sup>10</sup>

In addition to meeting state requirements, school systems must also comply with federal laws such as the Elementary and Secondary Education Act (No Child Left Behind), the Individuals

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<sup>5</sup> Tennessee Code Annotated, Section 49-2-203.

<sup>6</sup> Ortiz, et al. 2004, 2.

<sup>7</sup> Jones and Stewart, 2009, 62.

<sup>8</sup> *Tennessee Small School Systems, et al., Plaintiffs-Appellants v. Ned Ray McWherter, et al., Defendants-Appellees*, 851 S.W.2d 139 (1993).

<sup>9</sup> Public Acts of 1992, Chapter 535.

<sup>10</sup> Lyons, et al. p. 301.

with Disabilities Education Act, 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 privacy.

### ***Line-Item Alterations and Revisions***

Tennessee's school systems are associated with a variety of governmental structures: counties, cities, and special school districts. Special school districts have more autonomy and do not need the approval of a city or county legislative body to adopt a budget. 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 with an appointed director of schools. No matter which law governs a county's budgeting and accounting systems, various courts have confirmed that the county legislative body, under current law, 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 by refusing to approve the total budgets by specific amounts, coupled with voiced concerns over particular items, they are able to wield a great deal of influence over specific items anyway.

General statutes governing appropriation and disbursement of county funds are found in Tennessee Code Annotated, Sections 5-9-401 through 407. In addition, counties can opt to adopt one of three other fiscal systems established in statute. These include the Fiscal Control Acts 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). The particular system adopted affects the amount of autonomy the school systems have from the main county governments.

Of these, the 1981 Act is the most centralized. Under this act, a finance department is created to administer all funds handled by the county trustee, including school funds. The system requires a county financial management committee that includes four members appointed by the commission, the county mayor, the director of schools, and the highway supervisor. The committee establishes policies and procedures to implement a sound, efficient financial system and appoints a director of finance.<sup>11</sup> Language added in 2012 to Section 5-21-111 clarifies that, under the 1981 Act, 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

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<sup>11</sup> These are described in greater detail on the website of the University of Tennessee County Technical Assistance Service.

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.

The statutory relationship between municipal legislative bodies and their school systems, described in Tennessee Code Annotated, Section 6-56-204(b) is more direct, and clearly gives 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.

Tennessee Code Annotated, Section 6-36-113, addresses school budgets for modified city manager-council charters, but 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.

Two court decisions clearly establish that local legislatures do not have authority to alter individual line items within school system budgets under current statutes. 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 even to the point of changing line items.<sup>12</sup> The trial court ruled that the authority to control a school'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." The court cited an earlier case, *State ex rel. Boles v. Groce* (1925), which said that

[t]he county board of education is a separate and distinct entity from that of the

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<sup>12</sup> *Morgan County Board of Commissioners v. Morgan County Board of Education*, 1994 Tenn. App. LEXIS 183, 1994 WL 111457 (Tenn. Ct. App. Apr. 6, 1994)

county court,<sup>13</sup> created by the state, with well-defined powers and duties, over which the county court has no supervisory jurisdiction.<sup>14</sup>

A second case, the *Putnam County Education Association v. Putnam County Commission* (2005), dealt specifically with the issue of line item vetoes of school budgets. 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.<sup>15</sup> 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.

[P]ublic 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.

### ***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 options for oversight of school system expenditures. The budget process itself provides many opportunities to question and challenge the various expenditures and voice opposition. In addition, if school boards want to shift funds between major categories during the school year, they must seek approval from the local legislative body.<sup>16</sup> Several specific statutes give county commissions additional authority over school finances:

- 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

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<sup>13</sup> Note that county commissions were formerly called county courts.

<sup>14</sup> *State ex rel. Boles v. Groce*, 152 Tenn. 566; 280 S.W. 27; 1925 Tenn. LEXIS 102; 25 Thompson 566.

<sup>15</sup> *Putnam County Education Association v. Putnam County Commission*, et al.2005.

<sup>16</sup> Tennessee Code Annotated, Section 49-2-301(W)(ii); See also Opinion No. 99-100, Office of the Attorney General.

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.)

- 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 opined 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.”<sup>17</sup>

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, such an education committee or a member representative who acts as a liaison with the school board helps to inform the process. Others felt that those counties that had adopted the 1981 Financial Management Act had better 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.

Open communication between local legislative bodies and school boards could improve the public availability and understandability of their budgets and fiscal information, which could allay concerns about clarity. The Commission said in its 2013 report *Government Transparency: Can One Size Fit All?* that, while most Tennessee school systems have websites, few publish budget or financial information on those sites.<sup>18</sup> That report cited Michigan and Texas as two states that require school systems to make budgetary information more publicly accessible.<sup>19</sup> That report encouraged governments to develop websites that are “comprehensive, understandable, and usable, but implemented with the least possible cost.”

### Proposed Legislation

The Senate State and Local Government Committee of the 108<sup>th</sup> General Assembly referred Senate Bill 1935 by Johnson (House Bill 2250 by Casada), to the Commission for study. The bill would have given some county and municipal legislative bodies the authority to alter or revise administrative line items within school systems’ budgets when administrative spending exceeds 10% of the total budget, excluding debt service requirements and other expenditures required by law. See appendix.

The bill’s sponsors suggested that additional control over school system administrative spending is needed to ensure that maximum dollars are spent on instruction rather than

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<sup>17</sup> Opinion No. 14-01, Office of the Attorney General and Reporter, State of Tennessee.

<sup>18</sup> Detch, 2013, 13.

<sup>19</sup> Ibid., p.26

bureaucracy. They said the bill would provide greater transparency for dollars spent outside the classroom.<sup>20</sup> They also noted some research by the Beacon Center, a non-profit think tank with a focus on free-market approaches to public policy, that indicated an increase in administrative spending over time.<sup>21</sup>

The bill applied to all municipalities that operate school systems, but only to those counties that had adopted any 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 feature of the bill when he referred it to the Commission for study and questioned whether it 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, immunities, [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 counties that have adopted the optional fiscal systems could choose on their own to operate 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.

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.

### ***A Closer Look at Administrative Costs***

The referred bill 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

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<sup>20</sup> Interview with Senator Jack Johnson, April 29, 2014 and testimony of Representative Glen Casada in House Local Government Subcommittee, March 19, 2014.

<sup>21</sup> Clark and Gilbert, 2013, 1. 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.

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.

### What is the range of administrative costs across the state?

For the most recent fiscal year available, 2012-13, administrative costs as a percentage of total current expenditures as reported in the ASR ranged from 4.78% in the Loudon County school system to 14.19% 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. The lowest percentage for the five-year period reviewed was 4.3% for Loudon County in fiscal year 2008-09; the highest percentage was 14.2% for South Carroll Special School District in fiscal year 2011-12, not including the Achievement School District (ASD), which had administrative expenditures of 65.9% in fiscal year 2012-13. (The Achievement School District is a state run school district that allows the Commissioner of Education to remove consistently low performing schools from their home districts to be managed by the department or to authorize charter schools to serve the students.) See table 1.

**Table 1. Administrative Expenditures as a Percent of Total Current Expenditures**

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Achievement School District					65.85%
Etowah	12.38%	12.40%	13.47%	13.84%	14.19%
Rogersville	12.01%	11.58%	12.22%	12.36%	13.34%
Alamo	11.54%	12.07%	11.39%	12.01%	13.03%
Fayetteville	11.94%	11.65%	10.46%	11.46%	12.73%
Richard City SSD	11.40%	12.12%	10.79%	12.73%	12.63%
South Carroll SSD	12.53%	12.11%	12.04%	14.22%	12.60%
Milan SSD	11.87%	11.44%	12.16%	11.94%	12.32%
Bristol	9.88%	9.66%	9.93%	11.16%	11.88%
Humboldt	11.91%	10.75%	10.54%	11.67%	11.81%
Carroll County	10.75%	10.73%	10.74%	11.55%	11.66%
Bradford SSD	12.43%	11.12%	11.46%	10.46%	11.40%
Lenoir City	11.11%	11.23%	11.02%	11.14%	11.22%
Memphis	9.23%	9.52%	9.89%	10.07%	10.97%
Crockett County	10.50%	10.50%	10.00%	10.03%	10.96%
Moore County	10.40%	10.01%	10.80%	10.86%	10.94%
Manchester City	11.03%	10.85%	10.98%	10.66%	10.91%
Franklin SSD	10.66%	10.91%	11.10%	10.87%	10.85%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Trousdale County	9.99%	10.31%	10.38%	9.62%	10.81%
Shelby County	10.65%	10.63%	10.26%	10.20%	10.78%
Sevier County	9.68%	9.64%	10.30%	9.92%	10.78%
Union City	9.83%	9.57%	9.47%	10.01%	10.60%
Clinton	8.77%	8.69%	9.11%	10.31%	10.56%
Lake County	10.00%	10.03%	10.11%	10.03%	10.47%
Maury County	9.90%	10.20%	9.80%	10.20%	10.46%
Bells	11.17%	10.41%	10.26%	10.37%	10.44%
Elizabethton	9.47%	9.41%	9.71%	9.47%	10.38%
Lebanon SSD	9.59%	9.22%	9.62%	10.52%	10.36%
Unicoi County	10.10%	9.60%	9.84%	9.72%	10.34%
Lexington	9.04%	9.39%	9.92%	9.97%	10.23%
West Carroll SSD	10.02%	9.62%	9.62%	10.03%	10.23%
Houston County	10.07%	10.37%	10.19%	10.75%	10.23%
Cannon County	10.06%	9.94%	10.06%	10.20%	10.20%
Clay County	9.27%	9.12%	8.92%	9.33%	10.19%
Dyersburg	7.96%	8.10%	7.99%	8.44%	10.14%
Sullivan County	9.07%	9.00%	9.31%	9.65%	9.95%
Overton County	9.98%	9.69%	8.92%	10.19%	9.93%
Campbell County	8.35%	8.31%	8.79%	9.81%	9.87%
Greenville	9.79%	9.79%	10.02%	9.95%	9.85%
Tullahoma	9.00%	9.21%	8.90%	9.81%	9.85%
Perry County	9.26%	9.41%	9.16%	9.52%	9.81%
Johnson County	9.94%	10.07%	9.85%	10.00%	9.76%
Oneida SSD	9.87%	10.14%	9.93%	9.97%	9.73%
Jackson County	9.15%	9.34%	9.03%	9.44%	9.60%
Oak Ridge	9.38%	8.99%	9.28%	9.02%	9.58%
Polk County	8.76%	9.00%	9.23%	9.46%	9.55%
Hawkins County	9.18%	8.89%	9.08%	9.16%	9.53%
Smith County	8.78%	8.72%	8.36%	9.11%	9.44%
Haywood County	9.99%	9.14%	8.96%	9.15%	9.42%
Sweetwater	9.12%	8.86%	8.99%	9.23%	9.39%
Maryville	8.64%	8.67%	9.85%	9.33%	9.38%
Huntingdon SSD	8.70%	8.41%	8.20%	9.19%	9.32%
Montgomery County	9.52%	9.31%	9.09%	8.95%	9.30%
Alcoa	9.61%	9.10%	9.65%	9.48%	9.26%
Trenton SSD	9.36%	8.87%	8.93%	9.17%	9.23%
Hamilton County	10.38%	9.27%	9.02%	9.23%	9.23%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Coffee County	8.91%	8.79%	8.97%	8.93%	9.19%
McKenzie SSD	9.58%	8.68%	9.15%	8.97%	9.16%
Sumner County	9.03%	9.31%	8.91%	9.11%	9.15%
Marion County	8.87%	8.76%	8.78%	9.19%	9.14%
Greene County	8.78%	8.28%	8.88%	8.29%	9.12%
Van Buren County	8.91%	8.63%	8.81%	9.12%	9.07%
Williamson County	8.99%	8.98%	9.04%	9.13%	9.04%
Chester County	8.73%	8.72%	8.59%	8.89%	9.03%
Roane County	8.69%	8.88%	8.86%	8.86%	9.02%
Davidson County	8.16%	8.15%	8.23%	8.22%	9.01%
Lawrence County	7.76%	7.39%	7.98%	8.63%	9.01%
Knox County	9.19%	8.74%	8.98%	9.03%	8.97%
Fayette County	7.14%	7.81%	8.42%	8.45%	8.97%
Giles County	8.04%	7.52%	7.41%	7.48%	8.93%
Bedford County	6.27%	6.01%	7.59%	9.02%	8.86%
Morgan County	8.53%	7.63%	7.98%	8.24%	8.83%
Anderson County	8.32%	8.29%	8.52%	8.95%	8.80%
Madison County	8.37%	8.11%	8.70%	8.38%	8.79%
Obion County	8.70%	8.53%	8.08%	8.56%	8.74%
Stewart County	8.27%	8.32%	8.62%	7.91%	8.70%
Dyer County	9.04%	8.85%	9.04%	8.69%	8.69%
Marshall County	7.49%	8.23%	7.76%	7.75%	8.65%
Blount County	7.99%	7.80%	8.22%	8.59%	8.65%
Johnson City	8.16%	7.58%	8.09%	8.31%	8.65%
Claiborne County	7.59%	7.23%	6.78%	7.40%	8.64%
DeKalb County	7.99%	7.71%	7.51%	8.42%	8.64%
Gibson SSD	8.42%	8.46%	8.70%	8.57%	8.59%
Athens	8.58%	8.33%	8.61%	9.15%	8.57%
Bledsoe County	7.38%	7.21%	7.64%	8.36%	8.52%
Lewis County	7.82%	7.70%	7.78%	8.23%	8.52%
Newport	7.61%	7.70%	7.70%	7.51%	8.50%
Hardin County	7.99%	8.38%	8.10%	8.45%	8.49%
Lauderdale County	8.19%	8.45%	8.02%	8.34%	8.48%
Wilson County	8.76%	8.57%	8.28%	8.24%	8.40%
Benton County	7.66%	7.43%	7.68%	8.13%	8.35%
Carter County	7.98%	7.98%	7.83%	8.11%	8.34%
Tipton County	8.32%	8.33%	7.84%	8.22%	8.32%
Henry County	8.15%	7.99%	7.56%	7.91%	8.24%

School System	2008-09	2009-10	2010-11	2011-12	2012-13
Robertson County	8.15%	8.20%	8.15%	7.97%	8.23%
Kingsport	8.47%	8.45%	8.33%	8.39%	8.23%
Murfreesboro	8.75%	8.17%	8.28%	8.31%	8.22%
Dickson County	8.07%	7.95%	8.09%	8.06%	8.19%
Franklin County	8.43%	7.89%	7.66%	7.94%	8.17%
Hollow Rock-Bruceton SSD	7.88%	7.66%	7.00%	8.67%	8.10%
Putnam County	8.41%	8.33%	7.87%	7.91%	8.05%
Cocke County	7.98%	7.70%	7.65%	8.04%	8.04%
Jefferson County	8.36%	8.29%	8.12%	8.05%	8.00%
Hardeman County	7.82%	8.04%	8.04%	7.71%	7.92%
Dayton	7.07%	6.95%	6.83%	8.02%	7.88%
Fentress County	7.68%	7.19%	7.35%	7.63%	7.87%
Hamblen County	8.69%	7.56%	7.35%	7.39%	7.85%
Cumberland County	8.35%	7.72%	7.71%	7.80%	7.84%
McMinn County	7.39%	7.36%	7.60%	7.37%	7.83%
Cleveland City	7.63%	7.29%	7.17%	7.44%	7.71%
Rhea County	7.26%	7.13%	7.49%	7.38%	7.71%
Hancock County	7.66%	7.23%	7.17%	7.03%	7.70%
Pickett County	7.77%	7.51%	7.22%	7.80%	7.70%
Humphreys County	7.42%	7.48%	7.34%	7.44%	7.68%
Macon County	7.33%	7.53%	7.69%	7.62%	7.63%
Hickman County	5.40%	5.18%	5.03%	6.97%	7.55%
Cheatham County	8.46%	7.37%	7.39%	7.85%	7.53%
White County	6.67%	6.54%	6.55%	6.59%	7.33%
Rutherford County	7.83%	7.26%	7.23%	7.41%	7.26%
Paris SSD	8.15%	7.55%	7.57%	7.35%	7.24%
Grundy County	6.97%	6.83%	6.80%	6.76%	7.20%
Washington County	7.68%	7.60%	8.01%	7.96%	7.16%
Lincoln County	6.75%	6.46%	6.99%	7.02%	7.13%
Sequatchie County	7.38%	7.06%	6.97%	6.96%	7.08%
Bradley County	7.19%	6.78%	6.93%	6.88%	6.88%
Union County	8.23%	7.69%	7.83%	6.78%	6.82%
Scott County	6.40%	6.59%	6.72%	6.79%	6.78%
Weakley County	5.97%	6.02%	6.37%	6.36%	6.55%
Warren County	6.86%	6.69%	6.74%	6.79%	6.51%
Henderson County	6.52%	6.24%	6.40%	6.24%	6.45%
Monroe County	6.39%	6.38%	6.48%	6.20%	6.41%
Meigs County	5.95%	5.84%	5.85%	6.22%	6.32%

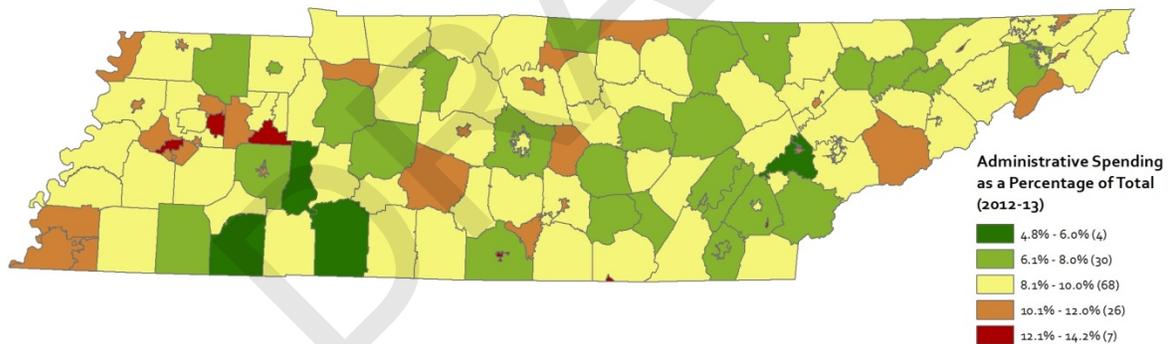
School System	2008-09	2009-10	2010-11	2011-12	2012-13
Grainger County	6.20%	6.44%	6.45%	6.34%	6.29%
Decatur County	6.61%	6.81%	5.43%	5.21%	5.63%
McNairy County	5.44%	5.46%	5.38%	5.52%	5.59%
Wayne County	5.40%	5.32%	5.07%	5.40%	5.58%
Loudon County	4.29%	4.54%	4.59%	4.59%	4.78%
<b>Statewide</b>	<b>8.75%</b>	<b>8.61%</b>	<b>8.69%</b>	<b>8.80%</b>	<b>9.31%</b>

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 136 school systems, about one-fourth, including the Achievement School District, have administrative expenditures greater than 10%. This analysis indicates that statewide administrative expenditures for the years 2008-2009 through 2012-2013 as a percentage of total current expenditures ranged from a low of 8.6% in 2009-2010 to a high of 9.3% in 2012-13. Map 1 further illustrates the variation in administrative costs across the state, showing that the majority of systems have administrative costs ranging from 8.1% to 10.0% or less.

**Map 1. Administrative Costs by School District, 2012-2013**



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 that “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 the bottom or the top fifth of school systems by enrollment.<sup>22</sup> 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. In a 2002 report, the

<sup>22</sup> Wesson and Mattson, 2014, 1.

Arizona Auditor General analyzed 20 districts with particularly high or particularly low administrative costs, as well as 14 with changing costs. The report found that most districts with particularly high costs had fewer than 600 students, while most 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.<sup>23 24</sup>

The efficiency to be achieved with larger numbers of students has a limit, however. Although experts disagree about the optimum size of school 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 percent of students eligible for free and reduced-price lunch, presence or absence of high schools, and students with limited English proficiency.<sup>25</sup> 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.<sup>26</sup>

Functions like communicating with parents may require greater numbers of technology staff and communications personnel 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.<sup>27</sup> Metropolitan Nashville Public Schools reports that for the 2011-12 fiscal year, administrative costs as a percent of total instructional expenditures for charter schools were 16% compared to 8.2% for the district as a whole.<sup>28</sup>

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<sup>23</sup> Arizona Auditor General, p. ii.

<sup>24</sup> See also StateImpact.

<sup>25</sup> Sonntag, p. p.36.

<sup>26</sup> Dougherty, pp.6-7.

<sup>27</sup> Arsen and Ni, p.1.

<sup>28</sup> E-mail from Glenda Gregory, Director of Building and Financial Reporting, Metropolitan Nashville Public Schools, June 13, 2014.

## 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 so consequently have somewhat different results.

Administrative costs reported in the 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. School systems have no control over the amount of this fee.

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:** (includes the Board of Education and Office of the Director of Schools)

- Personal Services (Secretary to Board, Board and Committee Member Fees, In-service training)
- Benefits (Social Security, Retirement, Life Insurance, Medical Insurance, Dental Insurance, Employer Medicare, Other Fringe Benefits.)
- Contracted Services (audits, dues, memberships, legal services, travel)
- Supplies and Materials
- Other Charges (judgments, liability insurance, trustee commissions, workers comp, TBI background checks, etc.)
- Office of the Director of Schools Personal Services
- (County Official/Administrative Officer)
- Capital Outlay for Administrative Equipment

### School Administration

- Office of the Principal
- Personal Services (principals, career ladder, accountants/bookkeepers, assistant principals, secretaries, other clerical, in-service training)
- Benefits

## **Business Administration**

- Fiscal Services
- Personal services
- Benefits
- Contracted services (data processing, dues, etc.)
- Support Services including Human Resources

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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

Leslie Holman  
Chief Financial Officer  
Williamson County Schools

Jack Johnson  
State Senator  
23<sup>rd</sup> District Williamson County

Joe Kimery  
Assistant Director  
Local Government Audit  
Comptroller of the Treasury

Wayne Miller  
Executive Director  
Tennessee Organization of School  
Superintendents

Libby McCroskey  
Legal Consultant  
County Technical Assistance Service

Lisa Nolen  
Finance Director  
Rutherford County

Justin Owen  
President and Chief Executive Officer  
Beacon Center

Robin Roberts  
Executive Director  
County Technical Advisory Service  
University of Tennessee

Jeff Sandvig  
Assistant Superintendent for Budget and  
Finance  
Rutherford County Schools

Ken Yager  
State Senator  
12<sup>th</sup> District

*Appendix*

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.