

## The Issues and Implications of the “65 Percent Solution”

### Summary

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Increasingly, the relationship between spending and student achievement is taking center stage in education debates across the country. The No Child Left Behind Act is pressuring educators to achieve annual gains in their students' performance. School district budgets are being stressed by rising operating costs, particularly in light of the economic strain imposed by the recent hurricanes, elevated oil prices, and rising pension and health care costs for district staff. Consequently, policymakers, taxpayers, and district leaders are seeking ways to maximize the impact of every dollar spent on public education and thus improve their educational “return on resources.”

To that end, a number of states are considering legislation that would require school districts to spend at least 65% of their budgets on “classroom instruction.” This proposal, known as the “65 Percent Solution,”<sup>1</sup> is being promoted across the nation by the Washington-based organization First Class Education (“FCE”). The organization’s goal is for all 50 states and the District of Columbia by the end of 2008 to pass a law requiring each school district to “spend at least 65% of its operating budget on classroom instruction.”<sup>2</sup> FCE suggests three potential benefits of the 65 Percent Solution: 1) increasing the amount of money spent in the classroom without increasing taxes; 2) reducing the amount spent on “wasteful” administrative costs by making districts accountable for how they spend their money; and 3) improving student performance by focusing on classroom activities.<sup>3</sup>

Proposals to implement the 65 Percent Solution are rapidly emerging in states across the country. So far, the 65 Percent Solution has been implemented in Texas by executive order of the Governor.<sup>4</sup> The Louisiana legislature has passed a resolution requesting that the State Board of Education revise its existing funding formula, which currently requires that 70% of school system general fund monies be spent on instructional services, to “further require 65% of general fund monies be spent at the *classroom level* on instruction.”<sup>5</sup> The Kansas legislature has passed a bill codifying the 65 Percent Solution as a “public policy goal” of the state.<sup>6</sup> Additionally, proponents of the 65 Percent Solution have proposed or plan to propose legislation in Ohio, Minnesota, Illinois, and Florida. Ballot measures are expected in Colorado, Washington, and Arizona in 2006.

Interestingly, the 65 Percent Solution comes at a time when many education reform initiatives place their emphasis on measurable student outcomes, as opposed to financial inputs. Yet, the 65 Percent Solution is an input-driven initiative, without any measurable outcome, such as a quantified achievement goal or targeted return on resources. This raises the question of whether there is empirical evidence that allocating more money to instruction will necessarily result in higher student achievement.

Standard & Poor’s analysis of district level spending and student achievement data in the states that are currently considering a 65 Percent Solution reveals that higher instructional spending

allocations are not consistently linked to higher achievement levels. This does not mean that *how* districts spend their money does not matter; in fact, allocating more money to instruction is a laudable goal. However, mandating a specific spending allocation is not likely to provide a “silver bullet” solution to raising student achievement. The wide range in districts’ academic proficiency rates at any given spending allocation suggests that the specific ways that school districts use their instructional dollars may have as much, if not more, of an impact on student achievement as the percentage of dollars spent in the classroom. Still, while the data do not support mandating a minimum instructional spending threshold applied uniformly across all districts, there is considerable value in measuring the amount of a district’s budget allocated to instruction as a means of assessing the district’s return on resources and determining whether the district’s spending is aligned with its academic goals.

This paper will address the following questions raised by the 65 Percent Solution and provide policymakers with a framework for considering its implications:

- What do the data reveal about the relationship between spending allocations and student achievement?
- What are the definitional issues to consider when determining the percentage a district spends on instruction?
- What questions should policymakers consider in connection with the 65 Percent Solution?

## The Relationship Between Spending and Performance

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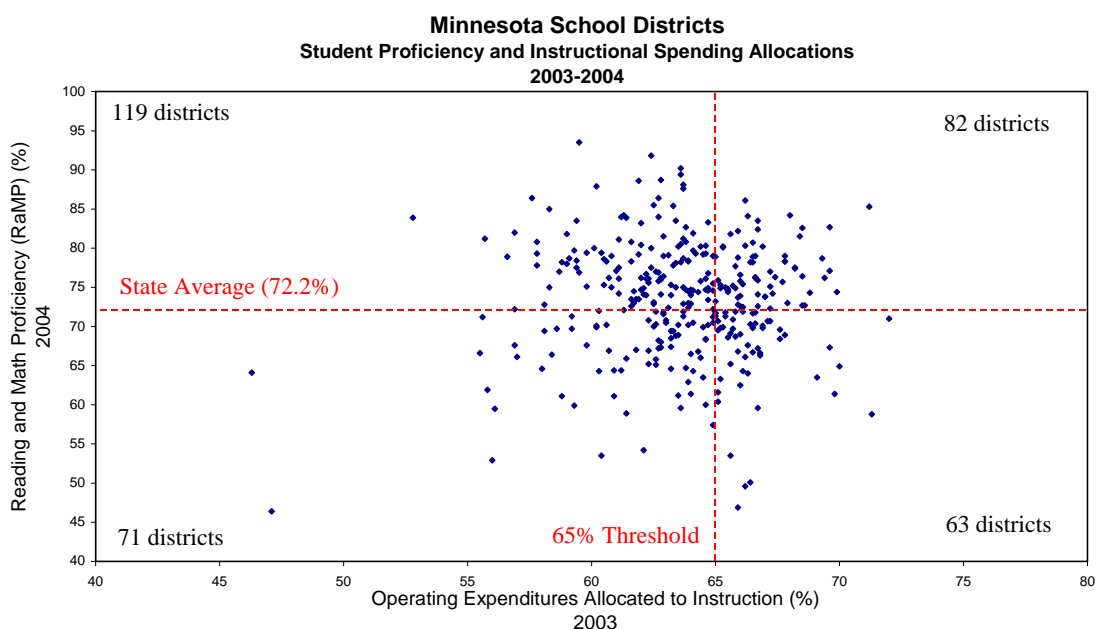
Standard & Poor’s analysis of data in nine states that are currently considering instituting a 65 Percent Solution<sup>7</sup> shows no significant positive correlation between the percentage of funds that districts spend on instruction<sup>8</sup> and the percentage of students who score proficient or higher on state reading and math tests. Although there are a number of districts that spend more than 65% on instruction and achieve above-average proficiency levels, there are many districts that exceed the 65% goal and achieve below-average proficiency rates. Interestingly, some of the highest-performing districts spend less than 65%, and some of the lowest-performing districts spend more than 65%. Student performance does not noticeably or consistently increase at 65%, or any other percentage spent on instruction.

### **Is there a relationship between spending 65% or more on instruction and higher student achievement?**

Most districts currently spend less than 65% of their operating budget on instruction. Of the nine states examined, only seven states<sup>9</sup> had more than one district that already spent 65% or more on instruction. Minnesota had by far the greatest percentage of districts that already allocate at least 65% of their operating budgets to instruction. Thus, the state is a prime test case for examining the relationship between spending allocations and student performance in detail.

The following scatterplot illustrates the lack of a relationship between the percentage allocated to instruction and the combined proficiency rate in reading and math for each of Minnesota’s

school districts using the most recent data available to Standard & Poor's. The red dotted horizontal line represents the state average combined reading and math proficiency rate (72.2% for the 2003-04 school year), and the red dotted vertical line represents the 65% spending threshold.



Among Minnesota's districts that already met the 65% spending threshold, 82 (or 56.6%) performed above the state average, while 63 (or 43.3%) performed below the state average.<sup>10</sup> However, it should be noted that there was a wide range in performance among the districts that spent 65% or more, essentially mirroring the performance of districts that spent less than 65% on instruction.

**Is there a relationship between *any* percentage spent on instruction and student performance?**

Just as there is no observable relationship between spending more than 65% on instruction and high student performance, there is also no significant correlation between spending *any* minimum percentage on instruction and student performance. The preceding scatterplot reveals that for any percentage of the district's operating budget spent on instruction, the proficiency rates achieved vary significantly.<sup>11</sup> For example, five districts in Minnesota spent 57.1% of their operating budgets on instruction. Student proficiency rates among those five districts ranged from 66.1% to 82%. The following table similarly illustrates that for every percentage of spending on instruction (in five percent increments), districts in Minnesota achieved a wide range of proficiency.

Operating Expenditures Spent on Instruction	Number of Districts	Range in Reading and Math Proficiency Rates		
		Low	Average	High
Less than 55%	3	46.4%	64.8%	83.9%
55-60%	35	52.9%	73.2%	86.4%
60-65%	152	31.8%	74.2%	93.5%
65-70%	142	46.9%	72.5%	86.1%
Greater than 70%	3	58.8%	71.7%	85.3%

In sum, the data show that there is no minimum instructional spending allocation that necessarily produces higher student achievement. However, these findings do not suggest that “money doesn’t matter,” or that school districts should not dedicate as much of their resources as possible to the classroom. This is a laudable goal, but the percentage allocated to instruction may need to vary from one district to another for legitimate reasons. For example, districts’ fixed costs and discretionary spending may vary significantly. Small districts, in particular, may find that their non-instructional spending is largely comprised of fixed costs that cannot be reduced. These districts may find that the only way to allocate 65% to instruction is to spend more overall, requiring them to seek additional funding from local taxpayers or additional state aid.

Furthermore, it is important to bear in mind that differences in total district spending against which any percentage figure is calculated will result in different dollar amounts spent by each district. For example, two districts serving students with similar needs could nonetheless have substantially different per-student operating budgets, with one spending \$7,000 and the other \$10,000, on average for each student served. In this case, one district could be spending 65% of \$7,000, and another district could be spending 65% of \$10,000 on instruction. While the percentage of spending allocated to instruction is the same in both districts, the total number of instructional dollars available for each student in the two districts is substantially different.

Since the data show no significant correlation between any percentage spent on instruction and student proficiency rates, there is presently a lack of empirical evidence for mandating a uniform percentage spending threshold across all districts to raise student achievement. However, measuring the percentage a district spends on instruction can be a useful performance benchmark for district leaders and policymakers. There are many ratios and metrics that can serve to inform resource allocation decisions; in fact, Standard & Poor’s reports the percentage of funds spent on instruction for all school districts in the nation, along with many other ratios that can be used to assess and improve a district’s return on resources.<sup>12</sup> With that in mind, the debate over the 65 Percent Solution highlights definitional issues for policymakers to consider when defining and applying a ratio to measure the percentage of a district’s budget spent on instruction.

## Determining the Percentage School Districts Spend on Instruction

The debate over the 65 Percent Solution primarily focuses on the definition of the terms “classroom instruction” and district “operating budgets,” which represent the numerator and denominator respectively in calculating the percentage of district spending attributable to student instruction. FCE advocates that states should adopt legislation requiring all districts to spend at least 65% of district “operating budgets” on “classroom instruction,” as these terms are defined by NCES.<sup>13</sup> Defining “classroom instruction” by reference to the NCES data categories has the benefit of being easy to implement, because all districts already must report their fiscal data to the federal government using those data categories. Thus, district financial data are comparable across, and available from, all districts nationally. However, there is no NCES data category specifically called “classroom instruction”; rather, the NCES data category most closely aligned with “classroom instruction” is “Instruction Expenditures,” which is defined as money spent on “activities that occur directly between students and teachers,” including payments for teacher salaries and benefits, supplies, materials, and contractual services related to instruction.<sup>14</sup> Thus by referencing the NCES definition of “classroom instruction,” FCE proposes the following formula to determine if districts are meeting the 65% threshold:

$$\text{Percentage spent on "classroom instruction"} = \frac{\text{Instruction Expenditures}}{\text{Operating Expenditures}} \times 100$$

The table below delineates which expenses are included in and excluded from “classroom instruction” as defined by the NCES Instruction Expenditures category:

“In the Classroom”	“Outside the Classroom”
<b>Classroom Teachers and Instructional Aide Salaries</b>	<b>Instructional Staff Support Services:</b> teacher training, instruction and curriculum development, library and media services
<b>Instruction Supplies:</b> computers, television, or other multimedia devices used in instruction	<b>Student Support Services:</b> attendance takers, guidance counselors, nurses, and social workers
<b>Cocurricular Activities:</b> Field Trips, Athletics, Music, Arts	<b>School and District-level Administration</b>
<b>Tuition Paid to Out-of State Districts</b>	<b>Operations and Maintenance</b>
<b>Payments to Private Institutions for Special Needs Students</b>	<b>Food Services</b>
	<b>Transportation</b>

Critics of the 65 Percent Solution claim that basing the determination of whether a district meets the 65% threshold solely on the district's Instruction Expenditures is unfair because it omits from consideration many related expenditures that are critical to the instruction of students. For example, state education groups in Texas assert that the narrow NCES definition of Instruction Expenditures excludes "big-ticket budget items" such as transportation, counselors, security, libraries, school lunches, nurses, and instructional aides—items that many consider part of delivering education.<sup>15</sup> If "classroom instruction" is defined so narrowly, districts will be forced to cut funding for non-administrative services that are essential to the instruction of students, they contend. Critics of the 65 Percent Solution, not only in Texas but in other states, generally assert that "classroom instruction" should be defined broadly to include the NCES categories of "Instruction Expenditures" and "Instructional Staff Support Services,"<sup>16</sup> which includes professional development and library services, and "Pupil Support Services,"<sup>17</sup> which includes nurses and counselors, to more accurately capture the amount a district spends on student instruction. The formula that these critics would use is:

$$\text{Percentage spent on "classroom instruction"} = \frac{\text{Instruction Expenditures} + \text{Instructional Staff Support Services} + \text{Pupil Support Services}}{\text{Operating Expenditures}} \times 100$$

When defining and applying a ratio to measure the percentage of a district's budget spent on instruction, it is important to recognize that directing money to "classroom instruction" is no guarantee that it will be used effectively. If the goal behind mandating a minimum instructional spending allocation is to ensure that money is targeted effectively toward improving student achievement, then precisely *how* the money is spent in the classroom is as important as *what percentage* is being spent on instruction. For example, three possible ways that a district might increase the percentage of its budget allocated to Instruction Expenditures include: 1) paying existing teachers more, 2) hiring more teachers (or reducing class size), and 3) purchasing more computers for the classroom. In the first case, unless the higher salaries attract better teachers, or motivate existing teachers to improve, there may be no resulting improvement in student achievement. Likewise, reducing class sizes may not improve student achievement if it is achieved through hiring less effective teachers from a limited employment pool. Finally, unless computers can be integrated constructively into the instructional program, they may not have a positive impact on achievement. By contrast, allocating money toward Instructional Staff Support Services might be a way to re-train existing teachers to make them more effective at improving student learning. Similar arguments can be made for certain other non-"classroom" spending decisions.

Policymakers who wish to monitor district instructional spending priorities to determine if they are consistent with a strategic focus on improving student learning have additional alternatives to the formulas detailed in the preceding paragraphs. If they prefer to rely on NCES definitions for simplicity and uniformity, they can expand the definition of instruction to include additional functional categories besides Instruction Expenditures. For example, adding Instructional Staff

Support Services would capture more of the activities traditionally thought of as directly impacting the instruction of students, without including the administrative functions covered under Pupil Support Services.<sup>18</sup>

Alternatively, policymakers could reference a state-specific definition of instruction that includes instruction and instruction-related costs, but excludes administrative expenses.<sup>19</sup> Policymakers can refer to the NCES *Financial Accounting for Local and State School Systems* manual, which provides programmatic subcategories to help districts further itemize their expenditures, to determine which subcategories should be included in their state's definition of instruction.<sup>20</sup> Any of these approaches would allow policymakers to structure a ratio to help them evaluate the percentage districts spend on activities impacting the instruction of students.

In addition to navigating the definitional issues concerning “classroom instruction,” policymakers should also consider the appropriate definition of district “operating budgets.” Both FCE and its critics use “Operating Expenditures” as the denominator in the formula for calculating the percentage of a district’s budget spent on classroom instruction. However, Operating Expenditures includes certain operating functions that tend to vary considerably across districts for reasons outside of their control. For example, districts that have very different geographic boundaries and population densities may face very different transportation expenditures. Likewise, some districts with high enrollments of economically disadvantaged students provide both breakfast and lunch for students, while others only provide lunch, which affects their food services expenditures. Consequently, a calculation of district spending based upon Operating Expenditures may not be analytically comparable across districts. To ensure comparability among districts, policymakers may wish to limit the denominator in this formula to a subset of Operating Expenditures that excludes transportation and food services expenditures. Standard & Poor’s refers to this subset of Operating Expenditures as “Core Spending.”<sup>21</sup>

The following formula is offered as an example of an alternative to the formulas proposed by FCE and by 65 Percent Solution critics for calculating the percentage of a district’s budget spent on the instructional functions that most directly impact student learning:

$\begin{array}{l} \text{Percentage spent on} \\ \text{“classroom instruction”} \end{array} = \frac{\text{Instruction Expenditures} + \text{Instructional Staff Support Services}}{\text{Core Spending}} \times 100$
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This formula includes the expenditures related to the instruction of students, excludes administrative expenditures, and maintains comparability across districts. Instruction Expenditures and Instructional Staff Support Services are included within the calculation of the percentage spent on “instruction” in order to allow districts flexibility to implement instruction-related initiatives that are likely to positively impact student achievement. This ratio could be used with other spending allocation metrics to monitor district resource allocation decisions in order to examine whether a district’s spending priorities are aligned with its academic goals.

## Conclusion and Further Considerations

Standard & Poor's analysis reveals that there is no minimum spending allocation that is a "silver bullet" solution for improving student achievement. Spending more on instruction is generally thought to help raise test scores; however, the data reveal no significant relationship between instructional spending at 65% or any other level and student performance. While the data do not support mandating a minimum instructional spending threshold applied uniformly across all districts, monitoring the percentage districts allocate to instruction is a useful benchmark in assessing the district's return on resources. To that end, the definitional debate surrounding the 65 Percent Solution is instructive in defining that ratio. As policymakers search for ways to ensure that districts are minimizing inefficiencies and optimizing the effectiveness of their resources, transparent data reporting is an essential first step. Additionally, examining how the most resource-effective districts (i.e., high achieving, lower spending districts) have allocated their instructional resources will offer invaluable insights into the particular instructional activities that tend to result in higher student performance.

### Questions for Policymakers:

- (1) If you support implementing a 65 percent solution in your state, what are your goals in doing so? Tax relief? Reducing administrative spending? Improving student performance?
- (2) What evidence do you have that mandating a minimum instructional spending threshold will achieve those goals?
  - a. What evidence do you have that districts have sufficient flexibility to reallocate non-instructional spending to instructional activities?
  - b. If your goal is to increase classroom spending, how would districts use that money so as to have the greatest impact on student learning? For example, by raising existing teachers' salaries and benefits? By hiring additional teachers to reduce class size, assuming space is available for new classrooms? By hiring classroom aides? By purchasing additional books, equipment, or computers?
  - c. If some of the state's highest performing districts spend less than 65% on "classroom instruction," could a forced change in resource allocation be detrimental to the districts' performance?
- (3) Does your state require districts to publicly report their financial data? Do the reports clearly explain how districts are spending their funds? If not, are the inadequacies caused by insufficient reporting detail? Lack of uniformity in applying definitions? Lack of easy accessibility?
- (4) What measures does your state currently use to monitor districts' spending allocations?
- (5) Does your state have a ratio measuring the percentage each district allocates to instruction? If so, how is that ratio currently calculated? Does the ratio the state uses consider only the percentage each district spends directly on instruction? Or, does the ratio include other instruction-related spending as well?

## Notes

<sup>1</sup> The term “65 Percent Solution” was first coined by George Will in “One Man’s Way to Better Schools,” April 10, 2005, *The Washington Post*, B7.

<sup>2</sup> Quotation from [www.firstclasseducation.org](http://www.firstclasseducation.org).

<sup>3</sup> Ibid.

<sup>4</sup> Executive Order RP47, August 22, 2005, “Relating to a Comprehensive Financial Accountability and Reporting System to Ensure Transparency and Fiscal Efficiency in School District Operations.”

<sup>5</sup> Emphasis added. Louisiana House Concurrent Resolution No. 77, Representative Mike Powell, 2005.

<sup>6</sup> Kansas State Legislature, Senate Bill 3, Special Session, 2005.

<sup>7</sup> The nine states are Texas, Kansas, Kentucky, Ohio, Florida, Arizona, Colorado, Minnesota, and Louisiana. Illinois did not have sufficient available data to be included in the S&P analysis. The appendix to this paper includes data analysis for each of the nine states using the most recent available data on SchoolMatters, for the 2002-03 and 2003-04 school years.

<sup>8</sup> For purposes of this analysis, “instruction” is defined using the NCES definition of Instruction Expenditures, since that is the definition advocated by FCE.

<sup>9</sup> The seven states are Arizona, Colorado, Kentucky, Kansas, Minnesota, Ohio, and Texas.

<sup>10</sup> The scatterplots for each of the nine states analyzed reveal a statistically insignificant correlation between the percentage districts spent on Instruction Expenditures as defined by NCES and their combined reading and math proficiency rates.

<sup>11</sup> Linear regression analysis of the data reveal no significant positive correlation between spending allocations and proficiency rates, with R-squared values consistently 0.1 or lower across the nine states analyzed.

<sup>12</sup> A set of indicators measuring the functional spending allocations of states and school districts in comparative context can be found on [www.schoolmatters.com](http://www.schoolmatters.com).

<sup>13</sup> NCES uses the term “Current Expenditures” to classify day-to-day district operating costs. Throughout this paper, the term “Operating Expenditures” will be used to refer to NCES’ “Current Expenditures” category.

<sup>14</sup> NCES *Financial Accounting for Local and State School Systems*, 2003, P 121.

<sup>15</sup> “Perry: Focus on Classroom Spending – He Says 65-Percent Rule Will Aid Schools; Critics Call it a Political Ploy,” August 23, 2005, [www.Dallasnews.com](http://www.Dallasnews.com), *The Dallas Morning News*.

<sup>16</sup> NCES *Financial Accounting for Local and State School Systems*, 2003, P 121, categorizes activities such as curriculum development, professional development, staff training to support media use, library services, and other activities for improving instruction as “Instructional Support” expenditures. Districts and states are required to report these Instructional Support expenditures separately from “Instruction” spending.

<sup>17</sup> NCES *Financial Accounting for Local and State School Systems*, 2003, P 121, categorizes activities designed to assess and improve the well being of students and to supplement the teaching process, such as guidance counselors, health and psychological services, supervision services, attendance services, and student accounting services, as “Student Support Services,” which are reported separately from “Instruction” expenditures.

<sup>18</sup> Some contend that NCES’ Student/Pupil Support Services category should also be included in the calculation of district spending on “classroom instruction.” While some of the expenditures included in this category are arguably related to the instruction of students, such as guidance counselors and psychological services, the category also includes activities that are more administrative in nature, such as attendance taking. Consequently inclusion of this category will necessarily add administrative expenditures into the calculation of district spending on “classroom instruction.”

<sup>19</sup> Some states have alternative methods of calculating instruction expenditures for in-state accounting systems.

<sup>20</sup> For example, policymakers who specifically want to include library services within the 65% threshold could define “classroom instruction” as including NCES’ “Library/Media Services” subcategory, instead of simply by referencing the broader “Instructional Staff Support Services” category. Additional information about NCES programmatic subcategories can be found on page 121 of the NCES *Financial Accounting for Local and State School Systems*, 2003.

<sup>21</sup> The formula for Core Spending = Operating Expenditures - (Transportation + Food Services).

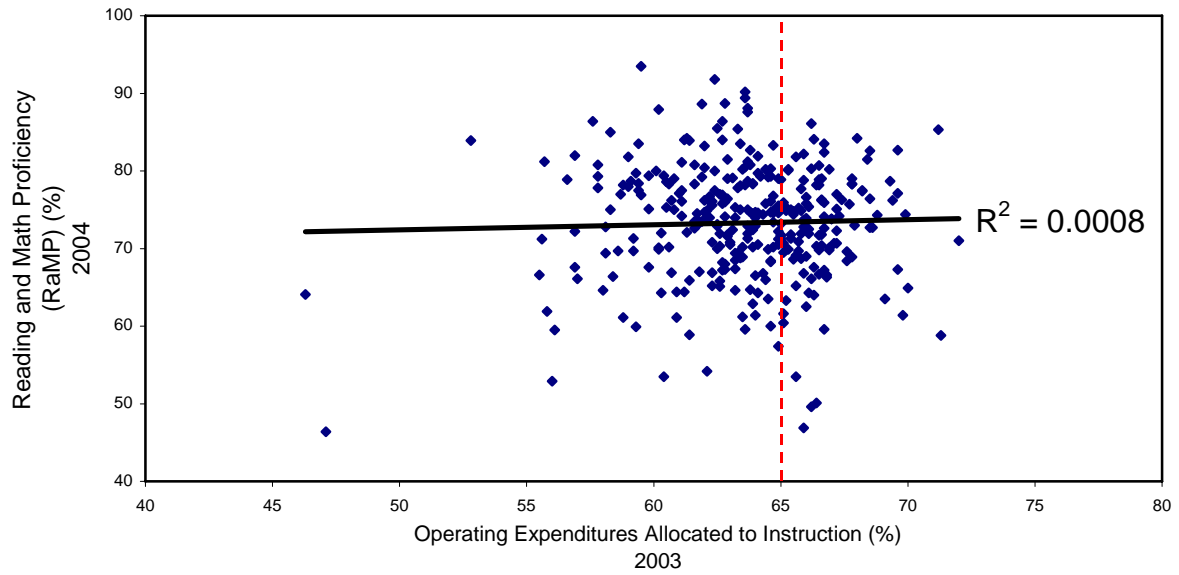
## Appendix

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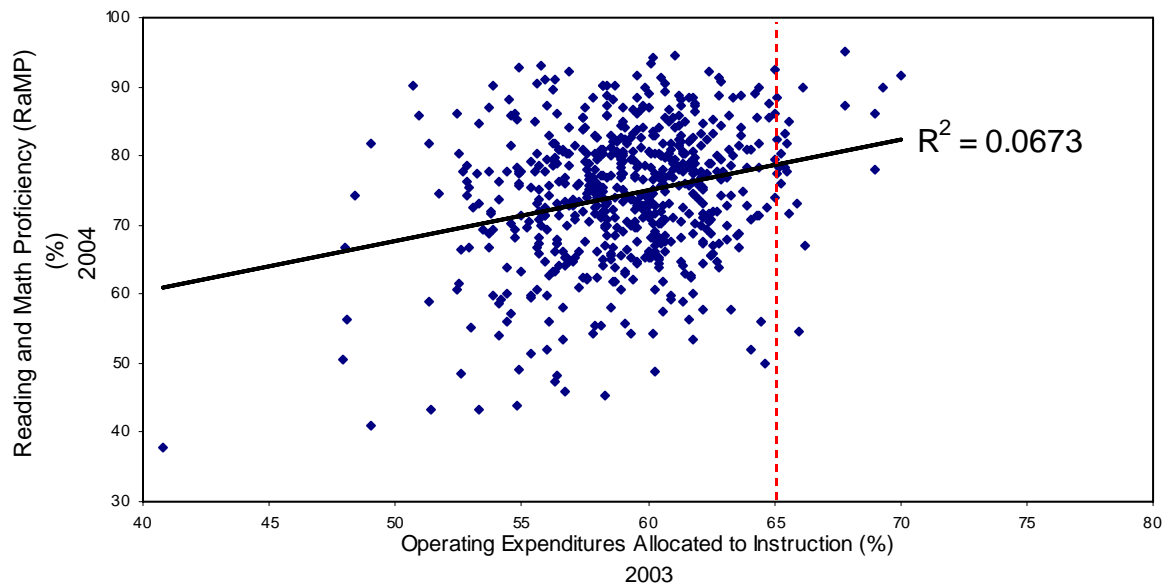
Standard & Poor's analyzed the combined reading and math proficiency rates and instructional spending allocations of the school districts in each of the nine states—Minnesota, Ohio, Louisiana, Texas, Kentucky, Florida, Kansas, Arizona, and Colorado—currently considering implementing a 65 Percent Solution\*. The following scatterplots illustrate that in each state, the relationship between the percentage that districts allocate to instruction and the percentage of students scoring proficient or above on state reading and math tests was statistically insignificant. In each graph, the red dotted vertical line represents the 65% spending threshold. The black line represents the regression line, or "line of best fit." The regression line essentially marks the average performance among all districts at each spending threshold, sloped in such a manner as to minimize the distance between each district and the line as much as possible. The closer the districts are to the regression line, the more significant the relationship is between spending and performance. An upward slope in the regression line suggests a positive relationship between instructional spending allocations and performance. This would suggest that spending more money in the classroom does result in higher levels of reading and math proficiency. However, the significance of this relationship is captured by the "r-squared" value. The r-squared value for each state signifies the degree to which the percentage allocated to instruction predicts student performance, with values closer to 1 signifying a stronger relationship, and values closer to 0 signifying a weaker relationship. In essence, the r-squared value explains how well the regression line depicts the relationship between the two variables. Since no state's r-squared value is greater than 0.17, the regression lines do not provide a statistically meaningful description of the relationship between instructional spending allocations and student performance; the relationship is not statistically significant.

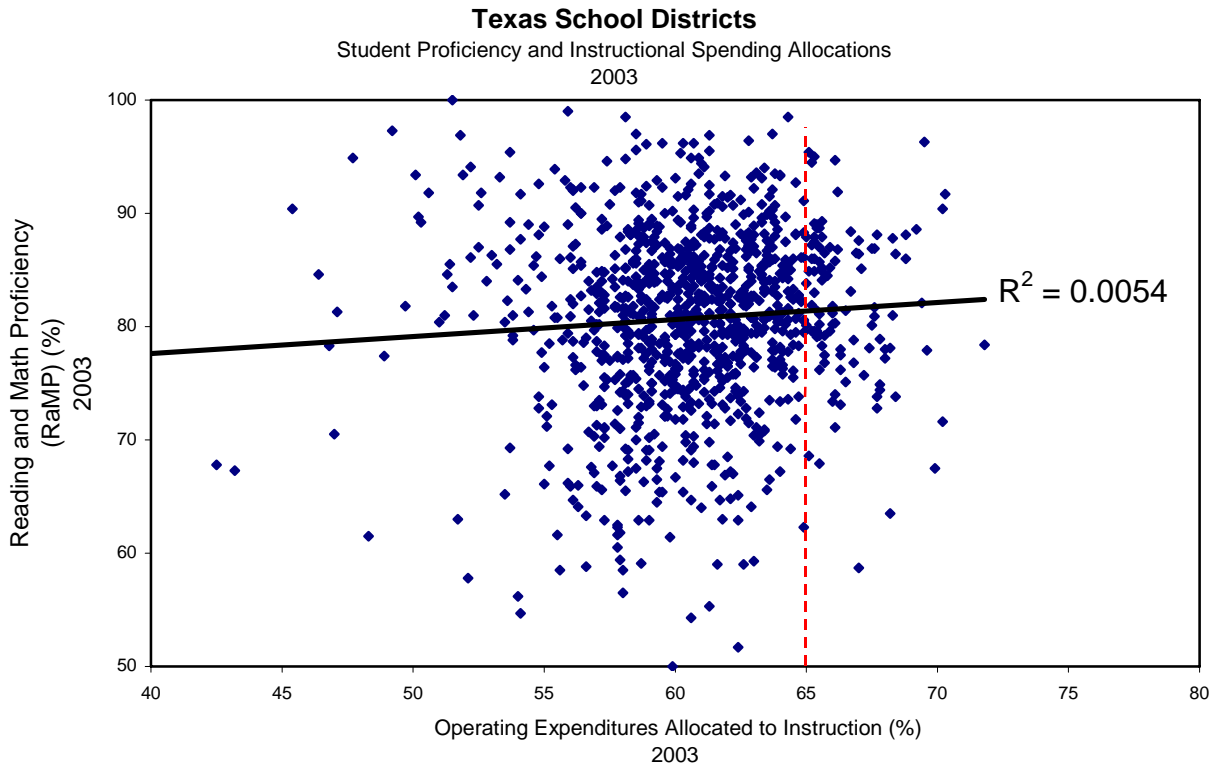
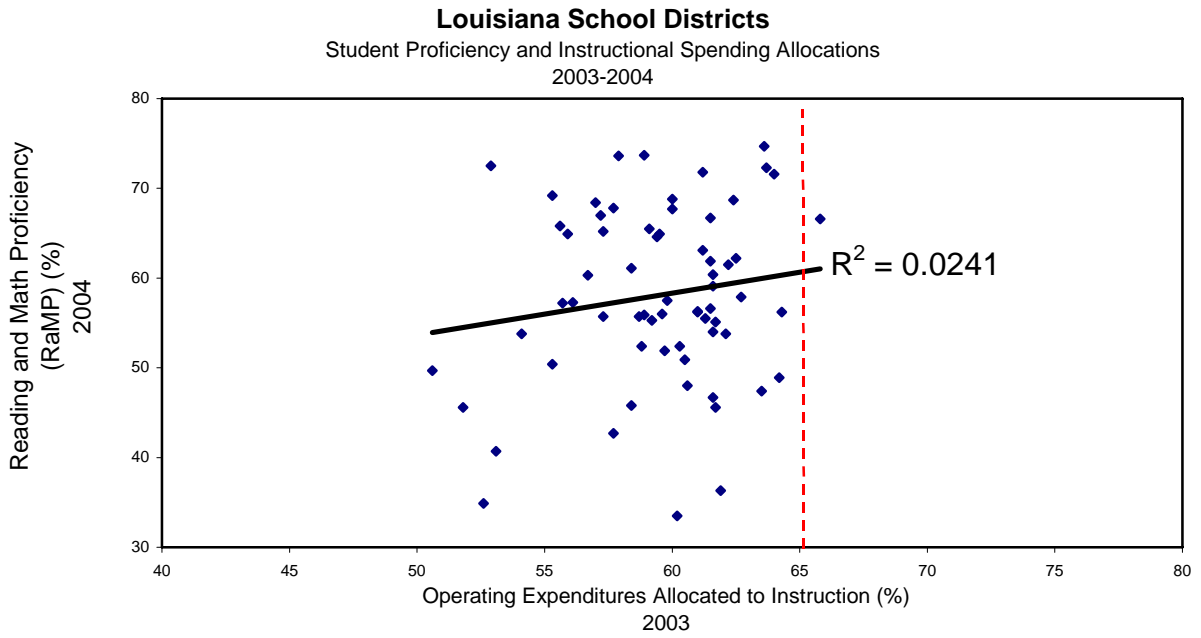
\* Note – a 10<sup>th</sup> state – Illinois – is also considering legislation, but sufficient data were not available through SchoolMatters at the time of writing to include analysis here.

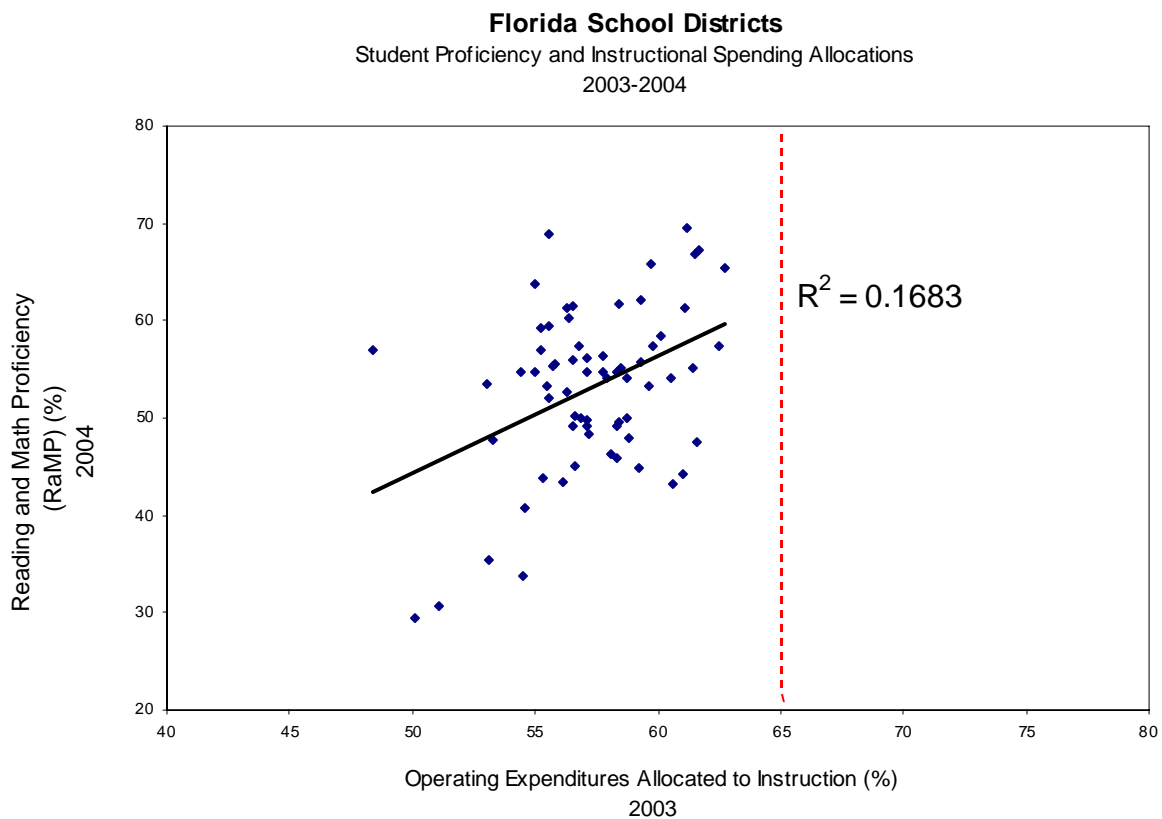
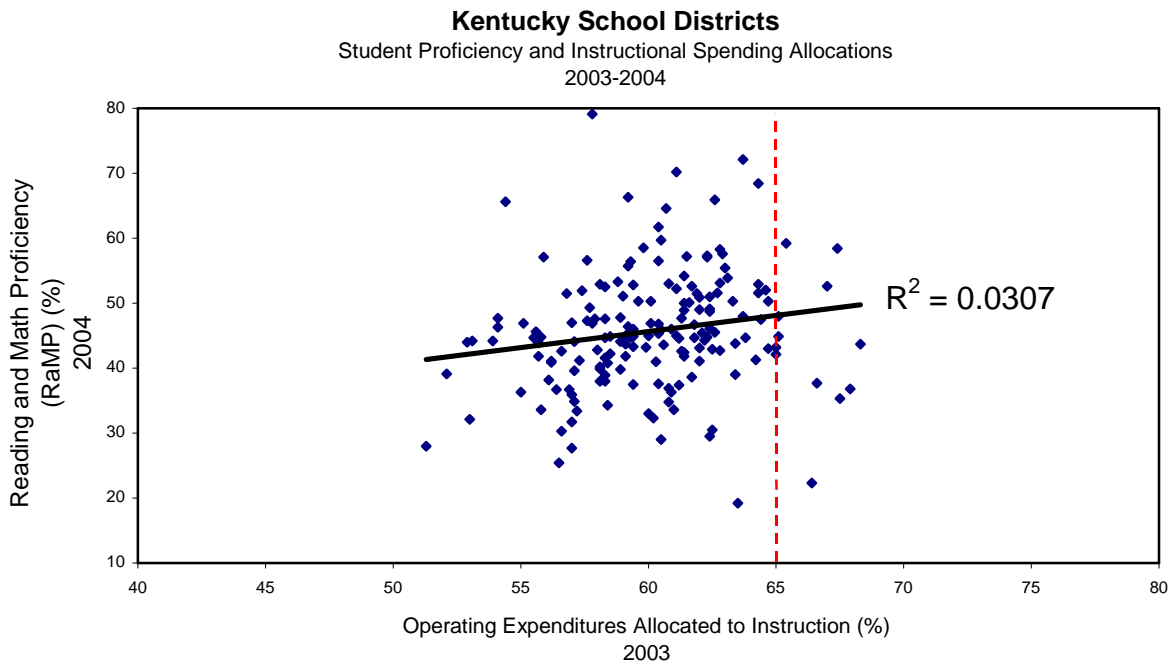
**Minnesota School Districts**  
Student Proficiency and Instructional Spending Allocations  
2003-2004



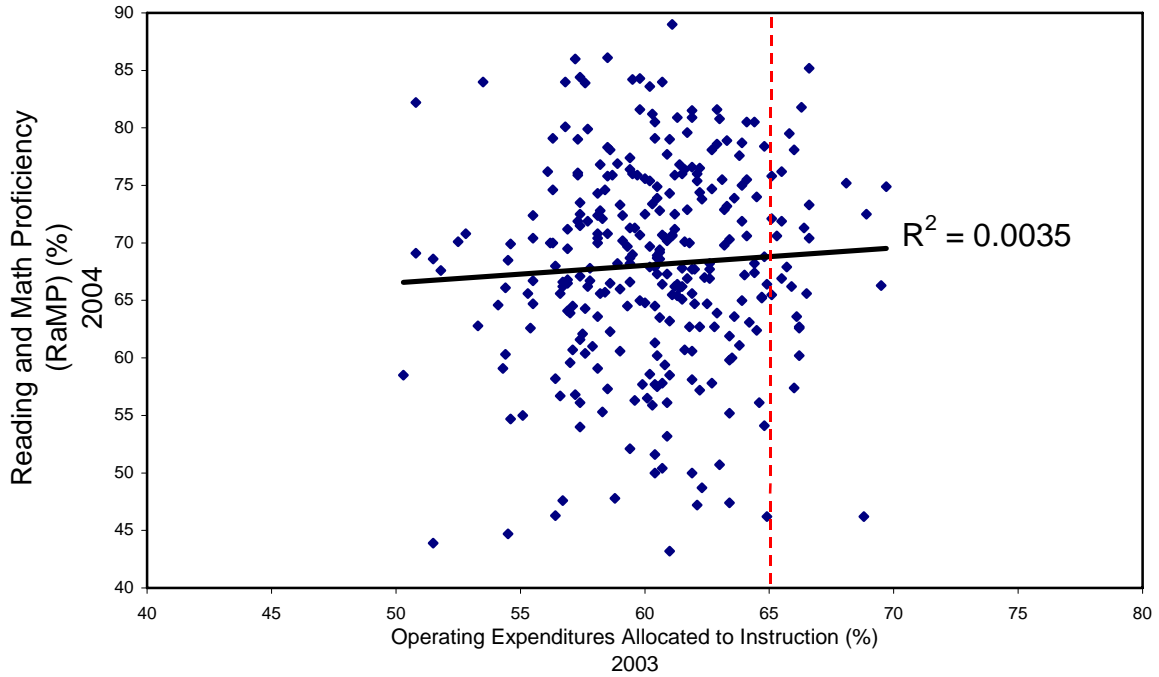
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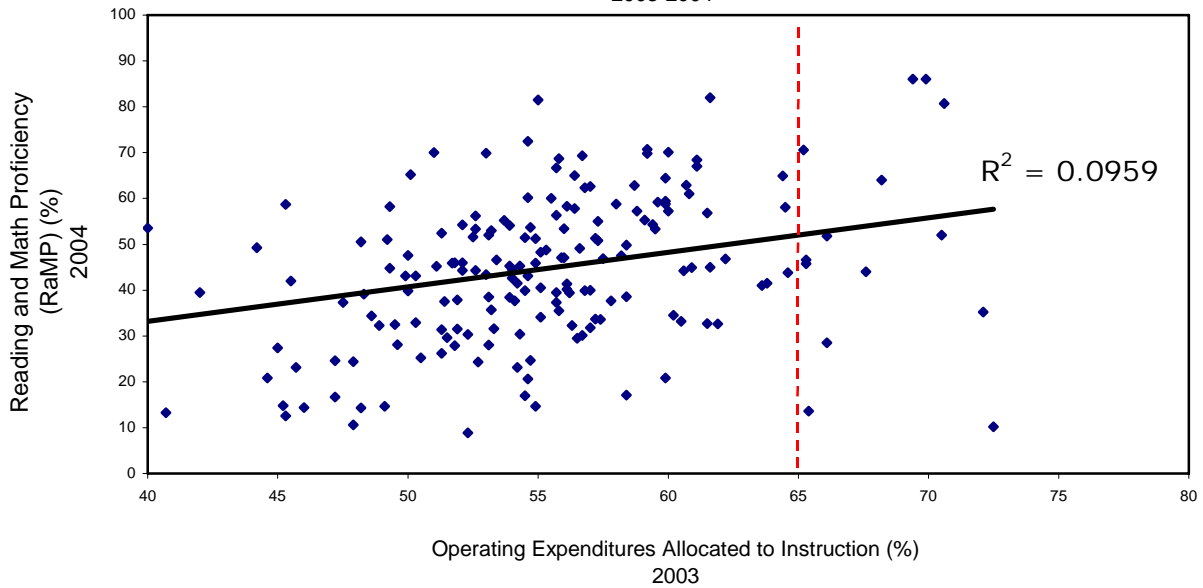


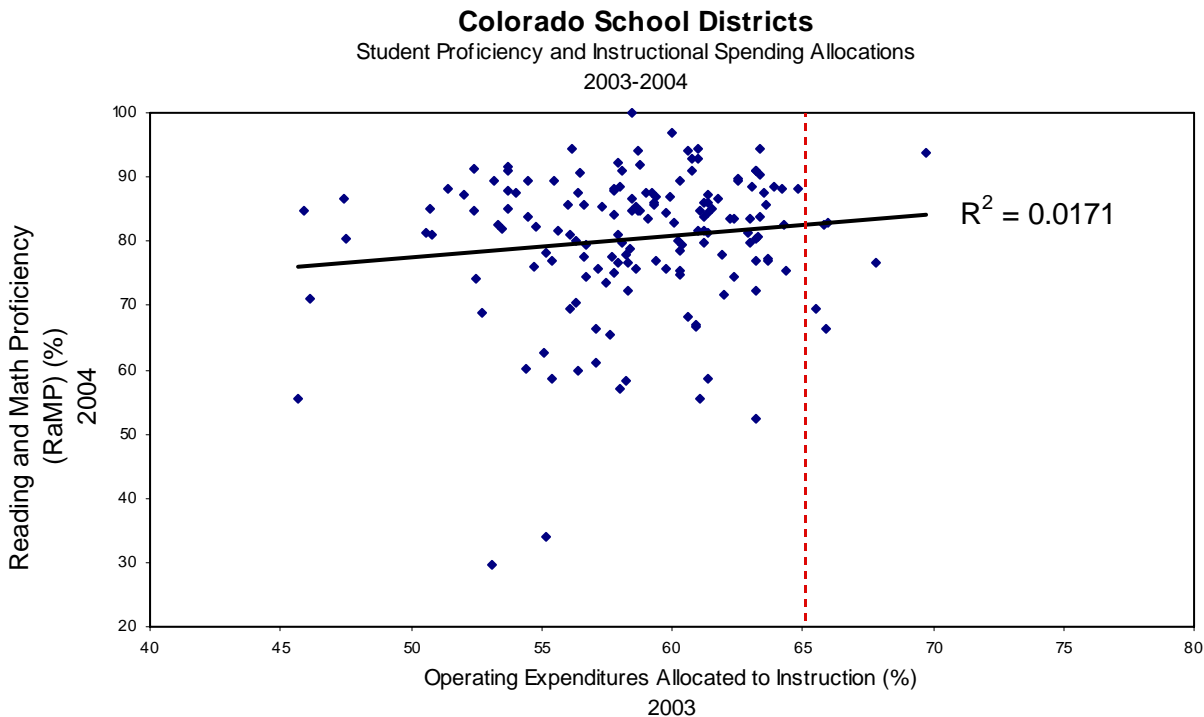


**Kansas School Districts**  
Student Proficiency and Instructional spending Allocations  
2003-2004



**Arizona School Districts**  
Student Proficiency and Instructional Spending Allocations  
2003-2004





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