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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 02/19/14

**SPONSOR** HEC **LAST UPDATED** \_\_\_\_\_ **HB** 391/HECS

**SHORT TITLE** Public Peace, Health, Safety & Welfare  
Phased Minimum Teacher Salary Increases **SB** \_\_\_\_\_

**ANALYST** Gudgel

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>	\$30,769.9	\$27,337.3	\$35,746.7	\$95,853.9	Recurring	School District and Charter School Operating Budgets

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to Appropriation in the Public School Support section of the General Appropriation Act

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Public Education Department (PED)

Education Retirement Board (ERB)

### SUMMARY

#### Synopsis of Bill

The House Education Committee substitute for House Bill 391 amends the Public School Personnel Act to increase the minimum salary for level 1, level 2, and level 3-a and level 3b license holders by two thousand dollars for the next five years until the minimums reach \$40 thousand, \$50 thousand, and \$60 thousand as shown in the chart below, and includes a recurring \$20 million appropriation:

Minimum Salary Schedule Proposed by HB 67						
	Current	FY15	FY16	FY17	FY18	FY19
Level 1	\$30,000	\$32,000	\$34,000	\$36,000	\$38,000	\$40,000
Level 2	\$40,000	\$42,000	\$44,000	\$46,000	\$48,000	\$50,000
Level 3a	\$50,000	\$52,000	\$54,000	\$56,000	\$58,000	\$60,000
Level 3b	\$50,000 x Responsibility Factor	\$52,000 x Responsibility Factor	\$54,000 x Responsibility Factor	\$56,000 x Responsibility Factor	\$58,000 x Responsibility Factor	\$60,000 x Responsibility Factor

### FISCAL IMPLICATIONS

Senate Bill 313 (the General Appropriation Act of 2014) includes \$10 million to cover costs associated with increasing the base minimum salary for level one, two, and three teachers and administrators to \$32,000, \$42,000, and \$52,000 respectively in FY15. SB 313 also includes funding to provide an average 3 percent salary for all school employees, including licensed school employees.

If enacted, the bill creates significant funding obligations for the next five years. **PED estimates the cost of this bill to total \$185.4 million in salary increases over the next five fiscal years.** This amount was determined by analyzing individual teacher’s tier placement and current salary to establish an annual need for each of the five fiscal years and does not account for teachers who may advance from one level to the next during that time period. The estimate assumes benefits at 19 percent. PED’s estimate for implementation of the first year totals \$30.8 million.

Large salary increases may have actuarial implications that have not been considered in the above analysis. The actuarial impact was not considered when the three-tiered licensure system was enacted and ended up being significant. It is likely that the impact will be less significant because the phase in is over a longer period of time.

The ERB’s analysis indicates that, in determining costs and liabilities, ERB’s actuary employs assumptions about the future, including an assumption regarding the rate of inflation and salary increases, or wage inflation. Based upon the recommendation of its actuary, the ERB revised its wage inflation assumption downward in 2013 from 4.75 percent to 4.25 percent following the conclusion of a six-year experience study period ending June 30, 2012. Without additional information regarding the number, status and salaries of affected employees and without providing its actuary the time necessary to perform an analysis of the impact of the proposed minimum salary increases, the ERB cannot comment on the actuarial impact, if any, of HB 67 on the Educational Retirement Fund. However, ERB staff notes that salary increases in recent years have lagged ERB’s actuarial assumptions and, over the long-term fluctuations in salary will be captured by the actuary’s wage inflation assumption, which is always subject to adjustment. Staff indicated ERB does not anticipate that the proposed increases would have a significant impact on the fund so as to warrant a formal actuarial analysis.

### SIGNIFICANT ISSUES

PED’s analysis notes that the bill will significantly increase minimum salaries of teachers with no consideration given to whether teachers are being effective in improving student achievement. The executive’s budget request for public school support included a 10 percent increase for level 1 teachers and proposed opt-in performance based pay pilots aligned to the NMTEACH evaluation system.

The PED analysis notes the bill fails to recognize many issues established in a 2009 LFC evaluation that found the three-tier system has failed to produce higher student achievement in the state. For further discussion on LFC evaluations see Other Substantive Issues.

## RELATIONSHIP

There following bills amend Section 22-10A-7 NMSA 1978: HB 276 – Teacher Licensure Advancement; SB 105 – Teacher Licensure & Advancement; SB 214 – Teacher Evaluation System & Council

## TECHNICAL ISSUES

The department’s analysis notes that the requirement for a “highly objective uniform statewide standard of evaluation” (HOUSSE) appears to have been eliminated potentially jeopardizing more than \$126 million in federal Title I and Title II funds.

LFC staff views the removal of HOUSSE in these sections as clean up, as Section 22-10A-4 NMSA 1978 includes the following relating to the career system:

B. The New Mexico licensure framework for teachers and school administrators is a progressive career system in which licensees are required to demonstrate increased competencies and undertake increased duties as they progress through the licensure levels. **The minimum salary provided as part of the career system shall not take effect until the department has adopted increased competencies for the particular level of licensure and a highly objective uniform statewide standard of evaluation.**

Section 22-10A-19 NMSA 1978 also includes the following relating to HOUSSE:

A. The department shall adopt criteria and minimum **highly objective uniform statewide standards of evaluation** for the annual performance evaluation of licensed school employees. The professional development plan for teachers shall include documentation on how a teacher who receives professional development that has been required or offered by the state or a school district or charter school incorporates the results of that professional development in the classroom.

## OTHER SUBSTANTIVE ISSUES

In 2003, the Legislature passed comprehensive education reform, including the establishment of the three-tiered system and corresponding new minimum salaries. New Mexico introduced the three-tiered system to increase the recruitment and retention of quality teachers to improve student achievement. The system created a three-level career ladder for teachers to ascend based on experience, leadership, and skills. Movement up a level results in pay increases of \$10 thousand.

The minimum salaries established in law were phased in between 2003 and 2008:

- Level I, Provisional Teacher: \$30,000 in SY04;
- Level II, Professional Teacher: \$35,000 in SY05 and \$40,000 in SY06; and

- Level III-A, Master Teacher: \$45,000 in SY07 and \$50,000 in SY08.

Previous evaluations of the three-tiered system confirmed the system decreasing widespread teacher shortages, reducing unqualified teachers, and improving teacher pay. Student performance, however, has not improved with taxpayer investments in teacher pay. A 2009 LFC evaluation using one year of performance data confirmed small differences in performance despite large differences in pay among teachers and offered solutions for improvement; however, those recommendations have not been implemented. Since that time, nearly 6,000 teachers advanced to new license levels, receiving \$59 million in mandatory salary increases.

Since that 2009 evaluation, the LFC has completed two more studies related to teaching and the three-tiered licensure system (“Public Education Department Teacher and Administrator Preparation in New Mexico December 5, 2012” and “Public Education Department Promoting Effective Teaching in New Mexico November 15, 2012”). These reports noted that despite investments in the state’s three-tiered licensure system, colleges of education continue to attract and admit academically average candidates and student performance within teacher licensure levels and between licensure levels suggests the local and state evaluation systems are not screening teachers for their effectiveness in the classroom. New Mexico colleges of education are preparing 50 percent of New Mexico teachers, and the report suggested more stringent entrance requirements could improve prospective teacher effectiveness.

Staff recommended coupling increases in level 1 beginning teacher salaries with increasing beginning teacher licensure standards. The report highlights the importance of carefully selecting candidates for teacher and administrator preparation programs, raising licensure standards for educators, and actively monitoring the performance of preparation programs.

Given one of the primary purposes of the three tiered system is to ensure student success, the report noted it is appropriate to explore the connections between advanced licensure levels and increases in student performance. The three-tiered system continues to offer a solid framework to align resources to performance, but student achievement must be better incorporated into the process. If modified, the report noted student achievement could be a data-driven concern for all teachers and serve as a way to reward the state’s best teachers and intervene for struggling teachers.

The full reports are available at:

<http://www.nmlegis.gov/lcs/lfc/lfcdocs/perfaudit/Public%20Education%20Department%20-%20Teacher%20and%20Administrator%20Preparation%20in%20New%20Mexico.pdf>

and

<http://www.nmlegis.gov/lcs/lfc/lfcdocs/perfaudit/Public%20Education%20Department%20%E2%80%93%20Promoting%20Effective%20Teaching%20in%20New%20Mexico.pdf>

## **ALTERNATIVES**

Consider coupling increases in the minimum salaries to expectations that college of education teacher and administrator preparation programs will increase both entrance and exit standards and PED will strengthen the approval and renewal process, and that movement through the licensure system will be coupled with demonstrating increased effect on student achievement over time.

Consider incremental increases annually to avoid creating significant future funding obligations.