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FISCAL IMPACT REPORT

ORIGINAL DATE 02/18/15

SPONSOR Stewart LAST UPDATED _____ HB _____

SHORT TITLE Phased in Minimum Teacher Salary Increase SB 223

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

Appropriation		Recurring or Nonrecurring	Fund Affected
FY15	FY16		
	\$11,238.2	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY17	FY18	FY19	FY20	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
\$17,731.4	\$29,915.4	\$38,266.7	\$45,031.4	\$130,944.8	Recurring	School District and Charter School Operating Budgets

(Parenthesis () Indicate Expenditure Decreases)

Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION

LFC Files

Responses Received From

Public Education Department (PED)

Educational Retirement Board (ERB)

Western New Mexico University (WNMU)

SUMMARY

Synopsis of Bill

Senate Bill 223 amends the School Personnel Act to increase the statutory minimum salaries for level one, two and three teachers and administrators of \$30 thousand, \$40 thousand, and \$50 thousand, respectively, by \$2 thousand each year beginning with the 2015-2016 school year until the minimums reach \$40 thousand, \$50 thousand, and \$60 thousand in the 2019-2020 school year.

Senate bill 223 appropriates \$11.3 million from the general fund to the state equalization guarantee distribution of the public school fund for expenditure in fiscal year 2016 for teacher and principal salary increases for the 2015-2016 school year. Any unexpended or unencumbered balance remaining at the end of FY16 shall revert to the general fund.

Minimum Salary Schedule Proposed by SB223						
	Current	FY15	FY16	FY17	FY18	FY19
Level 1	\$32,000	\$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 Responsibilit y Factor	\$58,000 x Responsibility Factor	\$60,000 x Responsibility Factor

FISCAL IMPLICATIONS

The appropriation of \$11.3 million contained in this bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY16 shall revert to the general fund.

LFC staff estimates the total cost of the bill to be \$130.9 million to cover the salary increases contemplated by the amendment. This amount was determined by analyzing individual teacher and administrator tier placement and salary reported in FY14 to establish an estimated annual funding 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. Additionally, the estimate assumes a 3 percent salary increase was provided to all teachers and administrators in FY15 consistent with language in the GAA that required a 3 percent raise to be given to all school employees.

The estimate assume benefits at 24.5 percent.

The appropriation of \$11.2 million included in this bill duplicates \$10 million already included in the state equalization guarantee distribution for FY15. The Legislature appropriated \$10 million to the state equalization guarantee distribution in FY15 to increase the minimums to \$32 thousand, \$42 thousand, and \$52 thousand. Language requiring the increased minimum for level two and level three teachers and administrators was vetoed; however, funding was not. School districts and charter schools received the funding and because of the veto were able to spend those dollars on school district or charter school priorities. It is possible that these funds did not support salary increases for level two and level license holders. However, because the Legislature intended these dollars to increase the minimum salaries for level two and three license holders, this analysis assumes the FY15 appropriation already includes sufficient funding to increase all the statutory minimums by \$2 thousand dollars and bases the FY16 increase on the change from \$32 thousand to \$34 thousand; from \$42 thousand to \$44 thousand; and from \$52 thousand to \$54 thousand.

If the Legislature does not appropriate amounts sufficient for the minimum salary increases contemplated by the bill, school districts and charter schools will be required to identify funding in their formula funding and other revenue sources to cover the costs associated with this bill.

Lastly, it is unclear if the amounts included above are for general fund only positions. Typically when the Legislature appropriates money for salary increases, the Legislature estimates the total cost and then estimates the amounts needed for positions funded by general fund revenues. The costs included in the above table are the total annual costs; the general fund amounts would likely be between 85 percent and 90 percent of those amounts, resulting in the need to make appropriations of between \$111.3 million and \$117.8 million in total to satisfy provisions of the bill. This estimate is consistent with PED's estimated need of \$114 million.

LFC recommended \$30.7 million to increase level one minimum salaries to \$37 thousand and level two and level three minimum salaries to \$45 thousand and \$55 thousand respectively.

ERB notes 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. If the bill is enacted, ERB would expect to capture its effect in future experience studies and revisit its wage inflation assumption, if necessary. As a general matter, a salary increase for only new teachers would have a positive impact on the actuarial status of the educational retirement fund, while a salary increase for only those teachers nearing retirement would have a negative impact. Because the bill proposes to increase minimum teachers' salaries across all levels of licensure, ERB anticipates that the bill's effect, if any, on the actuarial status of the educational retirement fund would be negligible.

SIGNIFICANT ISSUES

PED's analysis notes that the bill will significantly increase minimum salaries of teachers and administrators 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 6 percent increase for level one teachers and proposed opt-in performance based pay pilots aligned to the new teacher evaluation system.

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 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.

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.

Changes proposed in this bill could improve recruitment and retention of educators statewide.

Evidence exists to suggest a salary increase can improve a school district's attractiveness within their local teacher labor market and increase both the size and quality of the teacher applicant pool. Colleges of education report producing fewer graduates in recent years and ERB reports 17.8 percent of public education employees will be able to retire at the end of FY16 – this number increases to 23.2 percent in FY18 and 32.3 percent in FY19.

RELATED

HB 76, HB 71, SB 91 SB 126, and SB 153

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

PED suggest department-supported licensure advancement bills (SB91 and HB76) address teacher pay by allowing the state's most effective teachers to move through the licensure system faster, ensuring investments in increased teacher pay is accompanied with high student performance. Previous LFC staff has recommended basing licensure advancement decisions on more rigorous evaluation of effectiveness; however, staff recommendations included using both a simple and complex value added model to ensure the most effective educators are recognized.

Consider salary increases one year at a time to ensure sufficient funds are available to implement increased salary minimums.

RSG/bb