F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 01/26/16
SPONSOR Stewart **LAST UPDATED** 02/08/16 **HB**

SHORT TITLE Teacher and Principal Minimum Salary Increases **SB** 14/aSEC

ANALYST Elkins

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total						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)
Public School Insurance Authority (PSIA)
Educational Retirement Board (ERB)

SUMMARY

Synopsis of Senate Education Committee Amendment

Senate Education Committee Amendment to Senate Bill 14 removes provisions related to phasing in increased minimum salaries for teachers and school administrators over four years and removes the appropriation from the bill. The amendment instead increases minimum salaries for level one teachers, level two teachers, level three-A teachers, and level three-B administrators for the 2016-2017 school year. Any salary increases required by the bill would come out of district distributions through the State Equalization Guarantee.

Synopsis of Original Bill

Senate Bill 14 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 $4 thousand for the 2016-2017 school year and $2 thousand each year thereafter until the minimums reach $40 thousand, $50 thousand, and $60 thousand in the 2019-

2020 school year.
Senate Bill 14 appropriates $16 million from the general fund to the state equalization guarantee distribution of the public school fund for expenditure in fiscal year 2017 for teacher and principal salary increases for the 2016-2017 school year. Any unexpended or unencumbered balance remaining at the end of FY17 shall revert to the general fund.

Minimum Salary Schedule Proposed by SB14

	Current	FY17	FY18	FY19	FY20
Level 1	$34,000	$34,000	$36,000	$38,000	$40,000
Level 2	$40,000	$44,000	$46,000	$48,000	$50,000
Level 3a	$50,000	$54,000	$56,000	$58,000	$60,000
Level 3b	$50,000 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

LFC staff estimates the cost of the amended bill to be $6.1 million to cover the salary increases contemplated. This amount was determined by analyzing individual teacher and administrator tier placement and salary reported in FY15 to establish an estimate of funds need for FY17 and does not account for teachers who may advance from one level to the next during the next fiscal year. The estimate assumes benefits at 21.5 percent. LESC staff estimates the amended bill will cost $6.6 million to implement and made a slightly different assumption on FTE than LFC staff.

The appropriation of $16 million contained in the original bill is a recurring expense to the general fund. Any unexpended or unencumbered balance remaining at the end of FY17 shall revert to the general fund.

LFC staff estimates the total cost of the original bill to be $151.1 million to cover the salary increases contemplated. This amount was determined by analyzing individual teacher and administrator tier placement and salary reported in FY15 to establish an estimated annual funding need for each of the four 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 21.5 percent.

LESC and LFC staff are aware that the estimates for SB 14 are different. For the 2016 session, staff are using a more detailed data set from PED and differences are due to assumptions regarding analysis of the data.

PED estimates the total cost of the bill to be $93.5 million. However, PED’s analysis does not include a breakdown of cost by fiscal year and it is unclear if the estimate includes associated benefits cost.

In FY15, the Legislature appropriated $10 million to the state equalization guarantee distribution 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 three license

holders.
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 state equalization guarantee distribution 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 be approximately 89 percent of those amounts, resulting in the need to make appropriations of $130 million in total to satisfy provisions of the bill.

For FY17, the LFC recommendation for public school support included $6.4 million to increase the level one minimum salary from $34 thousand to $35 thousand.

ERB notes that, in determining costs and liabilities, the ERB's actuary employs assumptions about the future, including an assumption regarding the rate of inflation and salary increases called wage inflation. Thus, the ERB already anticipates salary increases when preparing its actuarial valuations. If SB 14 is enacted, the ERB would expect to capture its effect within this wage inflation assumption. Based upon the recommendation of its actuary, the ERB revised its wage inflation assumption downward in 2015 from 4.25% to 3.75% following the conclusion of a six-year experience study period ending June 30, 2014. If future experience studies indicate that the wage inflation assumption is no longer valid, the retirement board would again revise it accordingly. ERB expects that the salary increases proposed in SB 14 would have a minor positive impact on the actuarial status of the educational retirement fund.

According to PSIA, the employer contribution amount for employees enrolled in PSIA long-term disability (LTD) will increase as salaries increase for school employees. Although the LTD premium cost is not huge, it will slightly increase the employer contribution amount toward LTD premiums for school employees enrolled in LTD.

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 recommendation for public school support included general fund to increase the minimum level one teacher salary to $36 thousand and proposed opt-in performance based pay pilots aligned to the new teacher evaluation system.

The PED analysis notes the bill fails to recognize many issues established in a 2012 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 previously reported 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.

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

CE/jo/al/jle