

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 939 (First Edition)

SHORT TITLE: Salary Schedule for Teachers

SPONSOR(S): Representatives Adams, Tolson, Jeffus, and McLawhorn

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
REVENUES:					
EXPENDITURES: (General Fund)	\$378,758,756*	\$378,758,756**	\$378,758,756**	\$378,758,756**	\$378,758,756**
POSITIONS (cumulative):	N/A				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Local Education Agencies, State Public School Fund, and State Retirement Fund.					
EFFECTIVE DATE: The act is effective July 1, 2007, and applies to school years beginning with the 2007-08 school year.					

* Does not include \$54,675,722 that would be required if the General Assembly made conforming changes to the salary schedules for assistant principals and principals.

** Estimates for FY 2008-09 to FY 2011-12 expenditures represent the minimum additional expenditures for these years. Actual expenditures are likely to rise significantly. Because average teacher salaries under this bill would be higher than under the current schedule, expenditures would rise as additional teachers are hired. Additionally, the annual "step increases" under the new schedule would provide larger automatic annual salary increases than provided by the current schedule. However, the proposed salary schedule's unknowable impact on teacher turnover and legislative increases to teacher pay make it difficult to predict future expenditures. See Technical Considerations section for additional information.

BILL SUMMARY:

Section 1. (a) Of the bill condenses the existing salary schedule, and creates a new salary schedule applicable to certified personnel of the public schools who are classified as "A" and "M" teachers:

10-Month Salary Schedules

Steps	“A” Salary	“M” Salary
A	32,500	35,750
B	34,000	37,400
C	35,500	39,050
D	37,000	40,700
E	38,500	42,350
F	40,000	44,000
G	41,500	45,650
H	43,000	47,300
I	44,500	48,950
J	46,000	50,600
K	47,500	52,250
L	49,000	53,900
M	50,500	55,550
N	52,000	57,200
O	53,500	58,850

Section 1. (b) Of the bill places each employee on the appropriate salary schedule on the basis of years of experience as follows:

Years of Experience	Step on the 2007-2008 Salary Schedule
0-2	A
3	B
4	C
5	D
6	E
7-9	F
10-12	G
13-15	H
16-18	I
19-21	J
22-24	K
25-26	L
27-28	M
29	N
30	O

This section further establishes that no employee's salary shall be reduced as a result of placement on the appropriate salary schedule and no employee shall receive less than a one thousand dollar (\$1,000) salary increase as a result of placement on the appropriate salary schedule for the 2007-2008 school year.

Section 1.(c) indicates that beginning with the 2008-2009 school year, employees shall receive annual increments of one step (i.e., move up one letter) on the new salary schedule for each year of employment.

Section 1. (d) Clarifies that teachers will still receive salary increases for advanced certificates, earned doctorate degrees, and National Board for Professional Teaching Standards certifications.

Section 1. (e) Requires the State Board of Education to adopt rules and regulations necessary to implement the bill.

Section 2 establishes that the act becomes effective July 1, 2007.

ASSUMPTIONS AND METHODOLOGY:

1. Establish 2007-08 cost under current salary schedule

To examine the costs for the 2007-08 school year, each teacher¹ is moved up one step on the salary schedule from where they are in 2006-07 (this is what is known as a “step increase”). The number of teachers at each salary step is then multiplied by the appropriate base pay amount for their 2007-08 salary step. Additions are then made for longevity² and benefits³ to provide total estimated wage bill for 2007-08 under the existing salary schedule, \$4,557,242,093.⁴

2. Calculate costs under new salary schedule

Next, one must calculate the cost of placing teachers on the new salary schedule proposed by this bill. The array of teachers from the 6th pay period of the 2006-07 school year is advanced one step – this time using the new salary schedule. Additions are once again made for longevity and benefits to provide estimated total costs under the *new* salary schedule, \$4,936,000,869.

The table below summarizes the comparison of costs for the 2007-08 school year:

	Base Salaries	Longevity	Base Salaries + Longevity	Benefits	Total w/Longevity
Current w/Step Increase(07-08)	\$ 3,887,860,281	\$ 82,208,621	\$ 3,970,068,902	\$ 587,173,191	\$ 4,557,242,093
New Schedule (07-08)	\$ 4,211,964,828	\$ 88,062,064	\$ 4,300,026,892	\$ 635,973,977	\$ 4,936,000,869
\$ Increase	\$ 324,104,547	\$ 5,853,443	\$ 329,957,990	\$ 48,800,786	\$ 378,758,776
% Increase	8.34%	7.12%	8.31%	8.31%	8.31%

As the above table shows, the additional cost to the State in 2007-08 of converting to the new salary schedule would be **\$378,758,776**.

3. Cost of new salary schedule can also be compared to the 2006-07 teacher salary costs

It might also be useful to look at what the wage bill for teachers would be under the *new* salary schedule in 2007-08, and compare it to the costs of teacher salaries in 2006-07 under the *current* salary schedule. This will give you the dollar figure that the State would need to include for budgeting purposes in 2007-08. The table below summarizes the difference.

¹ This includes instructional support, which are traditionally considered “teachers” for purposes of pay.

² Longevity payments are based on experience, and calculated as follows:

Years of State Service	Longevity Pay Rate %
10 but less than 15 years	1.50%
15 but less than 20 years	2.25%
20 but less than 25 years	3.25%
25 or more years	4.50%

³ Benefits are calculated at 2006-07 rates of 7.65% for FICA, and 7.14% for retirement.

⁴ This assumes that there are no legislated increases to the salary schedule for 2007-08.

	<u>Base Salaries</u>	<u>Longevity</u>	<u>Base Salaries + Longevity</u>	<u>Benefits</u>	<u>Total w/Longevity</u>
Current w/Step Increase(07-08)	\$ 3,822,274,206	\$ 76,326,700	\$ 3,898,600,906	\$ 576,603,074	\$ 4,475,203,980
New Schedule (07-08)	\$ 4,211,964,828	\$ 88,062,064	\$ 4,300,026,892	\$ 635,973,977	\$ 4,936,000,869
\$ Increase	\$ 389,690,622	\$ 11,735,364	\$ 401,425,986	\$ 59,370,903	\$ 460,796,889
% Increase	10.20%	15.38%	10.30%	10.30%	10.30%

As one can see above, the State would need to budget \$460,796,889 for teacher salary increases in 2007-08 if this bill were to pass. Adoption of the new salary schedule would provide teachers with an average raise of 10.30% for the 2007-08 school year.

SOURCES OF DATA: Department of Public Instruction - LEA payroll input from the 6th pay period of the 2006-07 school year.

TECHNICAL CONSIDERATIONS:

1. Costs difficult to estimate in ensuing years

It is difficult to provide an accurate estimate of costs for ensuing years. The population of teachers in North Carolina changes significantly from year-to-year. North Carolina experiences annual turnover rates of approximately 12.57%.⁵ Each year, many teachers leave the system, and many more are brought into the system. This makes it difficult to predict what future populations of teachers will look like. Looking at past behavior will provide little indication of what future populations of teachers will look like, as the new salary schedule proposed by this bill would likely have different effects on turnover. Perhaps the more lucrative pay scale will cause more teachers to remain in teaching for a longer period of time. It is also possible that teachers will become frustrated after reaching the top salary step, and retire more quickly compared to teachers under the current salary schedule.

The new salary schedule could also produce behavioral changes for the General Assembly. The General Assembly has often provided legislative increases (LI) to the teacher salary schedule in the past. With the new schedule, it is possible that the General Assembly would no longer provide LI as frequently under the old salary schedule. On the other hand, they might have to alter the schedule frequently in response to the large number of teachers who will accumulate at the last step (Step O) of the new salary schedule. As with teacher turnover, looking at past behavior will provide little indication of how the General Assembly would provide LI in the future.

2. Expenditures are likely to rise significantly

Despite this uncertainty, it is likely that costs would rise significantly – at least for the next 5 years. The average teacher in North Carolina currently has about 13 years of experience. The table below demonstrates how that teacher’s base salary (the table below excludes longevity and benefits) would be affected over the next five years under each of the salary schedules:

⁵ NC Department of Public Instruction (NCDPI), System Level Teacher Turnover Report 2005-06.

Salaries of a Teacher With 13 Years Experience Under Existing and New Salary Schedules Over Next 5 Years

	2007-08	2008-09	2009-10	2010-11	2011-12
Existing Salary Schedule	<u>Step 14</u> \$39,510	<u>Step 15</u> \$40,050	<u>Step 16</u> \$40,600	<u>Step 17</u> \$41,150	<u>Step 18</u> \$41,740
New Salary Schedule	<u>Step H</u> \$43,000	<u>Step I</u> \$44,500	<u>Step J</u> \$46,000	<u>Step K</u> \$47,500	<u>Step L</u> \$49,000
Difference	\$3,490	\$4,450	\$5,400	\$6,350	\$7,260

Note that salaries increase more quickly under the proposed salary schedule than they do under the existing salary schedule. It is important to note, however, that teachers reach the maximum salary more quickly under the new schedule (after which, they presumably would no longer receive pay increases).

3. Implementation of new teacher schedule will likely create additional costs for principals and assistant principals

This bill proposes only to change the existing *teacher* salary schedule. As such, the analysis above has only looked at the increased costs incurred paying teachers. In practice, the State's salary schedules for principals, and assistant principals, have been tied to the teacher salary schedule.

If this bill were to pass, the General Assembly would need to consider whether to retain the long-standing pay relationships between school based administrators (SBAs) and teachers. If corresponding changes were made to the pay of SBAs, *there would be an additional cost to the State of \$54,675,722 for the 2007-08 school year.*

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