

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: House Bill 1833 (First Edition)

SHORT TITLE: Salary Schedule Rate Increase/"M" Teachers

SPONSOR(S): Representative Holloway

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:	\$14,822,026	\$15,660,599*	\$16,546,615*	\$17,482,759*	\$18,471,866*
POSITIONS (cumulative):	N/A				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State Public School Fund					
EFFECTIVE DATE: The act becomes effective July 1, 2007, and applies to school years beginning with the 2007-08 school year.					

* Note that these are inexact estimates and that incentives created by this bill could result in significantly higher costs in future years. See Assumptions and Methodology section for additional information.

BILL SUMMARY:

This bill will pay teachers with two relevant master’s degrees (as defined by the State Board of Education Policy Manual) five percent (5%) higher than the salary schedule applicable to "M" Teachers.

ASSUMPTIONS AND METHODOLOGY:

1. Establish 2007-08 Expenditures

The Department of Public Instruction (DPI) was able to identify the current number of State-funded teachers¹ with two relevant master’s degrees. Each of these teachers’ salaries was then

¹ This includes instructional support, who are traditionally considered “teachers” for purposes of pay. 5,198 FTEs are affected by this bill.

increased by five percent, as this bill directs. Additions were then made for longevity² and benefits³ to arrive at the total additional expenditures required by this bill, \$14,822,026.

2. Estimating beyond 2007-08

Factors affecting precision

Only inexact estimates of cost can be made for subsequent school years. There is substantial growth and turnover in the teacher population, which over time can significantly alter the average years of experience and education levels of North Carolina's teachers. Also, legislative increases (LI) to the salary schedule will make the cost of this bill higher in future years. For both turnover and LI, past experience might not be indicative of future changes.

Furthermore, changing the salary schedule for teachers with two master's degrees will create new incentives and behavioral changes that would affect the composition of the population of teachers with two master's degrees going forward. For example, since this bill enhances pay for teachers with two master's degrees, it is possible that many teachers would return to school to attain a second master's degree. Also, existing teachers with two master's degrees might opt to continue teaching longer than in the past, due to their higher pay levels. These factors make it difficult to forecast the costs beyond 2007-08 with great certainty.

Assumptions

It is possible, however, to make inexact estimates of costs beyond 2007-08 using historical averages of average daily membership (ADM) growth, and average salary growth.

- **ADM growth:** The number of teachers is a function of ADM. Therefore, as ADM grows, so does the number of teachers. *Assuming that teachers with two master's degrees continue to account for the same proportion of teachers going forward as they do in the 2006-07 school year, the number of teachers receiving salary supplements for master's degrees will grow along with ADM.*⁴
- **Average salary growth:** Because the salary supplement paid to master's teachers is based off the salaries paid to teachers on the "A" salary schedule, future costs will increase whenever there are legislative increases to the teacher salary schedules. At the same time, going forward there will be turnover in the teacher population, which will cause the average years of experience to change from year-to-year. *Assuming that future legislative increases and turnover mirror the experience of the past ten years,*

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 The increased pay for teachers with two master's degrees under this bill would likely lead to an increasing share of teachers with two master's degrees going forward. The assumption used here likely understates the future number of teachers with two master's degrees.

average salary growth can be used to account for future legislative increases and turnover in the teacher population.

Calculation

Over the past ten years, ADM has grown by 1.77 percent annually, and average teacher salary has increased 3.82 percent annually.

Currently, there are 5,198 full-time employees (FTE) that would receive salary increases under this bill. The average salary increase per FTE under this bill is \$2,852. Given this information, ADM growth and average salary growth can then be used to project future costs of this bill. The number of FTEs receiving the benefit grows each year by ADM growth (1.77%). The average salary increase grows each year by the average salary growth number (3.82%). The table below demonstrates how these variables are used to derive future costs of this bill:

ADM growth	1.77%
Average salary growth	3.82%

	2007-08	2008-09	2009-10	2010-11	2011-12
FTE	5,198	5,290	5,383	5,478	5,575
Avg. Sal. Increase	\$2,852	\$2,961	\$3,074	\$3,191	\$3,313
Cost (FTE x Sal. Increase)	\$14,822,026	\$15,660,599	\$16,546,615	\$17,482,759	\$18,471,866

SOURCES OF DATA: Department of Public Instruction

TECHNICAL CONSIDERATIONS: None

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