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FISCAL IMPACT REPORT

ORIGINAL DATE 02/20/11

SPONSOR Ryan LAST UPDATED _____ HB _____

SHORT TITLE Teacher Choice Compensation Fund SB 567

ANALYST Gudgel

APPROPRIATION (dollars in thousands)

| Appropriation | | Recurring or Non-Rec | Fund Affected |
|---------------|------|----------------------|---------------|
| FY11 | FY12 | | |
| | NFI | | |

(Parenthesis () Indicate Expenditure Decreases)

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY11 | FY12 | FY13 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|--------------|------|------|-------------|-------------------|----------------------|---------------|
| Total | | NFI | Significant | | Recurring | |

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files

Responses Received From
Public Education Department (PED)

Responses Not Received
Office of the Governor (GOV)

SUMMARY

Synopsis of Bill

Senate Bill 567 enacts a new section of the Public School Personnel Act to establish a merit based performance pay program for teachers that would be implemented in the 2012-2013 school year, and establishes a corresponding fund from which the department will be required to make payments in either the total or partial amount to school districts for one-time performance based pay increases.

FISCAL IMPLICATIONS

Teacher incentive pay is an initiative that is being advanced by the Governor and the Department. However, PED's analysis indicates the department is unable to estimate a fiscal impact because "appropriation and number of teachers unknown".

Teachers will qualify in October of each year for teacher incentive pay based on \$5,000 increments up to a maximum of \$15,000 dollars. Teachers are responsible for all standard withholding amounts.

This bill constitutes an unfunded mandate for districts. Districts will be required to participate in the program, providing annual one-time salary increases of \$5,000, \$10,000 or \$15,000 to qualifying teachers regardless of additional funding. The bill will have a substantial impact on school district operating budgets, depending on the number of teachers that opt into the program, the number of teachers that qualify for salary increases, and the amount of salary increases that each teacher receives.

PED, subject to the availability of funding, shall make payments to districts in the total or partial amount of the aggregate one-time salary increments, in January. The bill does not contain an appropriation, and the department has not indicated that there are other funds available to reimburse districts for one-time salary increases.

This bill creates a new fund, the Teacher Choice Compensation Fund, and provides for continuing appropriations. The LFC has concerns with including continuing appropriation language in the statutory provisions for newly created funds, as earmarking reduces the ability of the legislature to establish spending priorities.

SIGNIFICANT ISSUES

The bill requires PED to create and establish rules for the "Teacher Choice Compensation Program" to be implemented during the 2012-2013 school year.

The program will allow Level 2 and Level 3-A teachers to earn performance-based, one-time salary increments by meeting measurable student performance goals based upon value-added assessments developed by PED or standards-based assessments. In order to participate, a teacher must opt out of the standard, negotiated employment contract for the duration of employment with the district.

The salary increment is based on the level of improvement in student test scores on value-added test instruments or instruments as determined by PED; observations and evaluations by school principals or other administrators; and additional measures of effectiveness developed by each school district.

The majority of a teachers' evaluation will either be based on academic growth in reading and math for teachers in graded courses that are required to have standards-based assessments, or on teacher-developed assessments that have been reviewed by the superintendent for those teachers who teach courses with no designated assessments.

PERFORMANCE IMPLICATIONS

- Annual percent of core academic subjects taught by highly qualified teachers, kindergarten through twelfth grade (100%)
- Percent of fourth grade students who achieve proficiency or above on the standards based assessments in reading
- Percent of eighth grade students who achieve proficiency or above on the standards based assessments in reading
- Percent of fourth grade students who achieve proficiency or above on the standards based assessments in mathematics
- Percent of eighth grade students who achieve proficiency or above on the standards based assessments in mathematics.

ADMINISTRATIVE IMPLICATIONS

PED must create and establish rules for the “Teacher Choice Compensation Program”. The department shall develop criteria for determining eligibility for performance-based, one-time salary increments, including a range of target scores on assessments for use by districts, and shall provide districts with a protocol for teacher evaluations.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Relates to SB502, SB503, SB427 and HB355.

TECHNICAL ISSUES

Page 4, Line 23, Section J states PED shall make payments to the school district in the total or partial amount of the school district’s teacher choice compensation program performance-based, one-time salary increments. However, Page 5, Section K states money in Teacher Choice Compensation Fund is appropriated to PED for the purpose of paying performance-based, one-time salary increments to qualifying teachers. The language of the fund should be amended to reflect the language in Section J that payments will be made to the districts.

OTHER SUBSTANTIVE ISSUES

Teacher merit pay programs attempt to increase teacher accountability and student performance outcomes. Programs similar to the one proposed in this bill are surfacing nationally despite mixed results of existing programs. The National Center on Performance Incentives at Vanderbilt University released the results of a three-year merit pay study, The Project on Incentives in Teaching (POINT), September 2010. The ultimate goal of the study was to change teacher compensation to increase student outcomes. Middle school math teachers from the Metropolitan Nashville School System voluntarily participated in the three year study. The maximum bonus an eligible teacher might earn was \$15,000 – a considerable increase over base pay – for increasing student performance to a level that historically had been reached by only the top five percent of middle school math teachers in a given year. Lesser amounts were awarded for performance at lower thresholds. The study found that the general trend in middle school math performance was upward over the period of the project, however students of teachers randomly assigned to the treatment group (eligible for bonus) did not outperform students whose teachers were assigned to the control group (not eligible for bonuses).