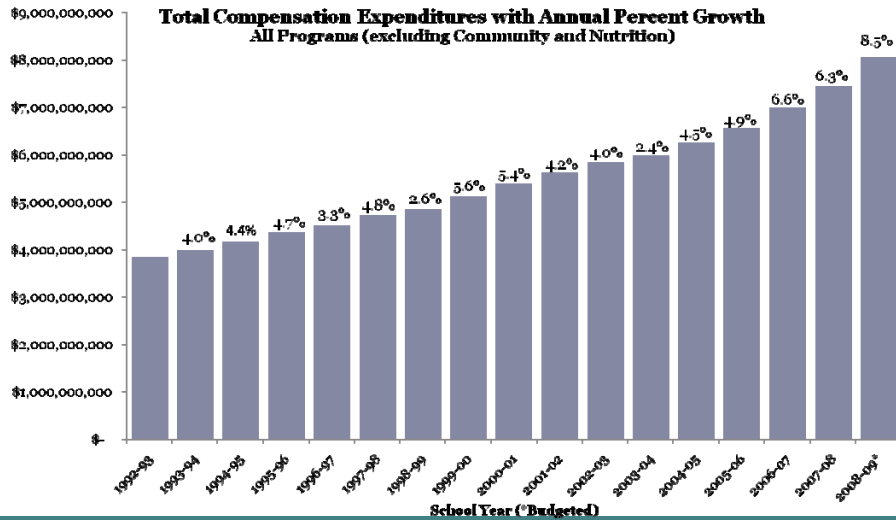


# Public Schools: Compensation Dynamics of a Looming Financial Crisis

1. What are the compensation dynamics that contribute to, and sometimes drive, the financial crisis?
2. What are the proposed solutions?
3. What does the next biennium hold?

## Compensation Dynamics and the Financial Crisis

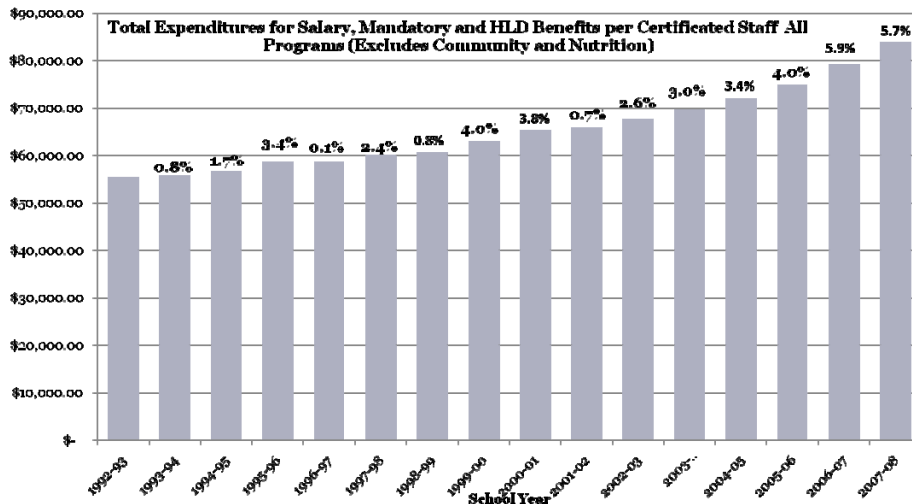
## Total Compensation Ranges Between 82% and 84% of Total Expenditures



Office of Superintendent of Public Instruction

3

## Annual Percent Increase in the Cost of Staff has Doubled

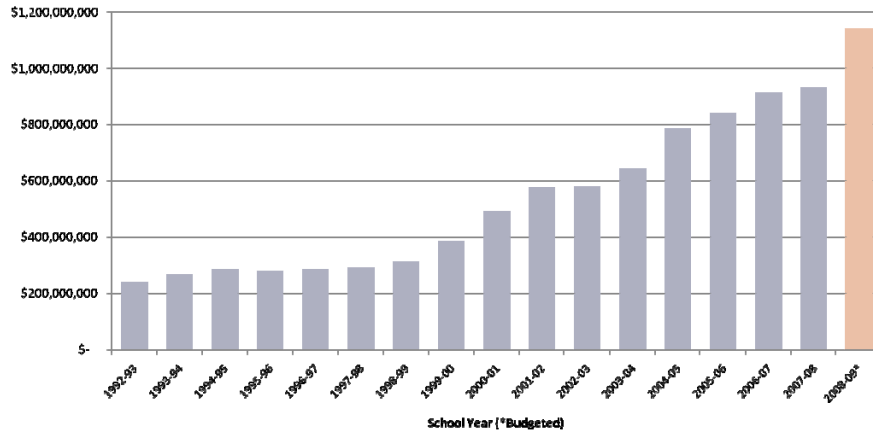


Office of Superintendent of Public Instruction

4

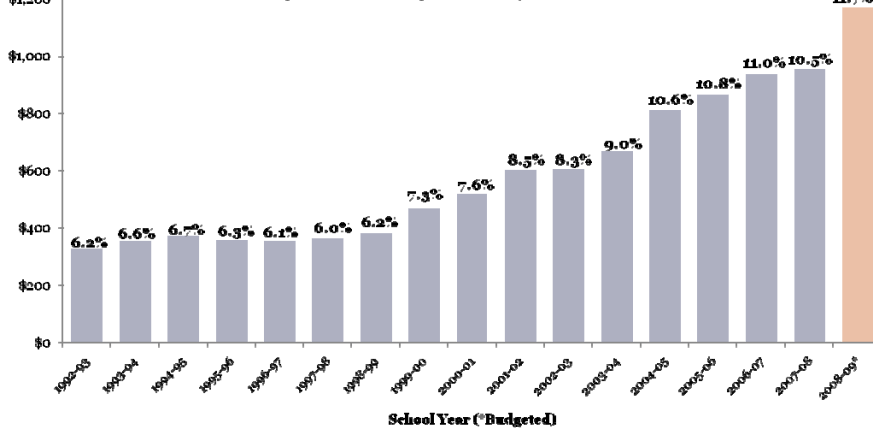
## School Districts Spend Over \$1 Billion on Health, Life and Disability Insurance

**Total School District Expenditures for Health, Life and Disability Insurance (All Programs, Excluding Community and Nutrition)**

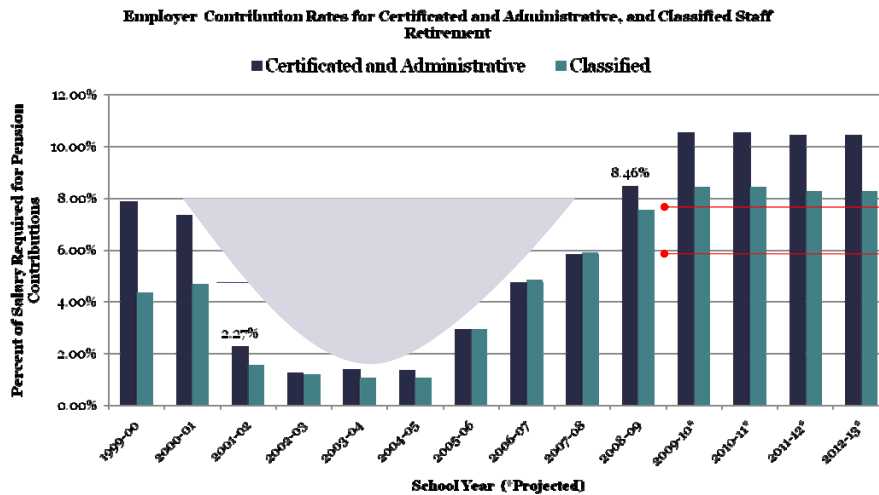


## HLD Expenditures per Student Have Doubled in 8 Years

**School District Expenditures for Health, Life, and Disability Insurance per Student with HLD as a Percent of Total per Student Expenditures (All Programs, Excluding Community and Nutrition)**



## Pension Rates Have been Volatile

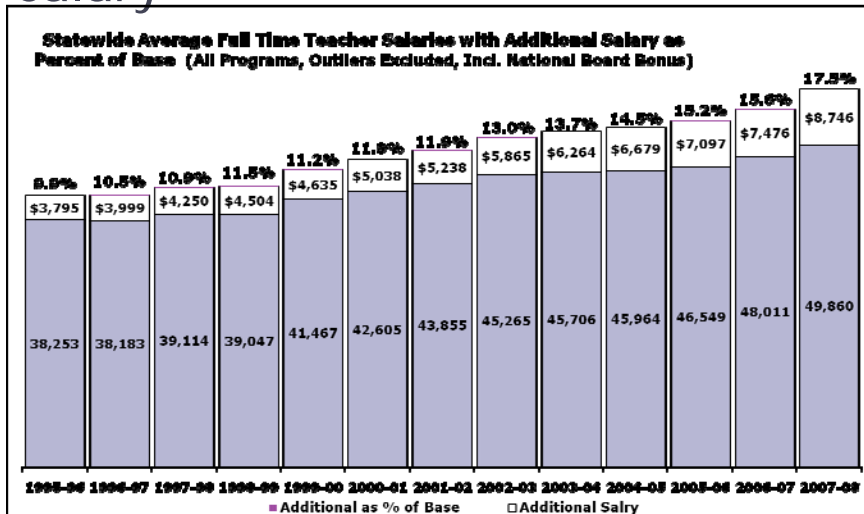


## Additional Salary

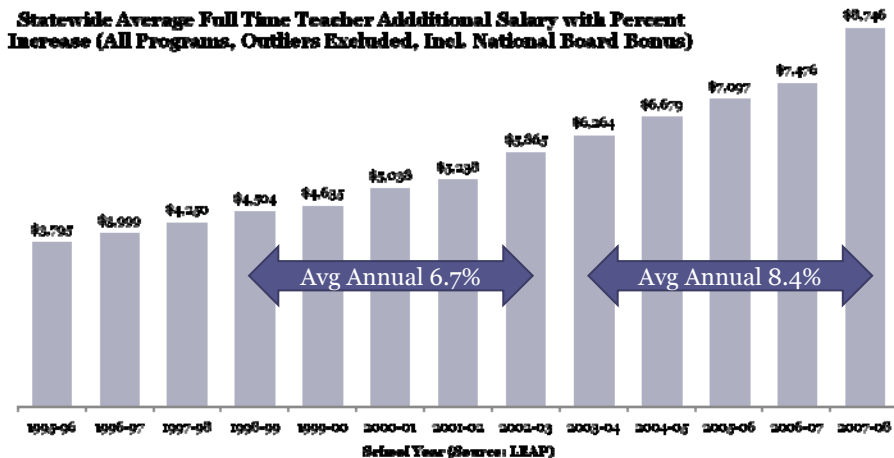
Increases driven by multiple factors:

- National Board Certification increasing
- State COLA applied to TRI schedule
- Increase in extra duties (new curriculum adoptions)
- Higher or more frequent class size overload pay
- New incentives (seniority incentive)
- COLA above state COLA

# Additional Salary is 17.5% of Base Salary



# Additional Salaries Increased 8.4% Annually During Prior 5 Years



## Getting a Handle on Responsibility

- What specifically drives Additional Salary? Is there one component?
  - National Board is fully paid for by state
- How much is for costs that are an appropriate Basic Education responsibility?
  - How much do teachers make for being teachers?

## At State Level, No Systematic Data on COLAs

- Example contracts of random large districts
  - Columns A-L represent percentage increase above state COLA applied to total salary
  - In some cases, percentage is linked to extra time (district- and/or teacher-directed)
- "?" Indicates COLA is dependent on negotiations for current contract; outcome unknown*  
*--- Indicates that contract will be open for this year*

	State	A	B	C	D	E	F	G	H	I	J	K	L
07-08	3.7 - 4.3	1.0	2.0	1.5	1.0	3.0	0.0	0.0	0.0	0.0	1.5	.5	2.5
08-09	4.4 - 5.1	.75	2.0	1.5	1.25	5.2-5.9	0.0	0.0	1.5	0.0	1.5	1.0	---
09-10	4.1*	?	3.0	2.0	---	---	0.0	0.0	1.0	?	---	1.0	---
10-11	0*	?	---	---	---	---	0.0	0.0	3.0	?	---	---	---

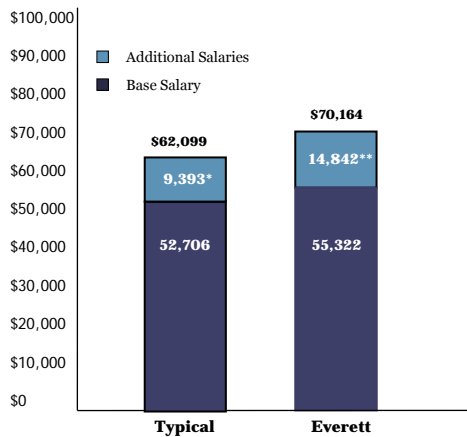
\*Projected I-732 COLA

## 1% COLA Drives Significant Percentage Increase in TRI Schedule

Base Salary (projected 2007- 08 Avg)	Value of Supplemental Salary	Total Salary	Value of 1% COLA	Increase in TRI Schedule of 1% COLA	1% COLA Per Student Increase
\$50,393	\$1,000	\$51,393	\$514	51.4%	\$28
\$50,393	\$2,000	\$52,393	\$524	26.2%	\$28
\$50,393	\$3,000	\$53,393	\$534	17.8%	\$29
\$50,393	\$4,000	\$54,393	\$544	13.6%	\$29
\$50,393	\$5,000	\$55,393	\$554	11.1%	\$30
\$50,393	\$6,000	\$56,393	\$564	9.4%	\$30
\$50,393	\$7,000	\$57,393	\$574	8.2%	\$31
\$50,393	\$8,000	\$58,393	\$584	7.3%	\$31
\$50,393	\$9,000	\$59,393	\$594	6.6%	\$32
\$50,393	\$10,000	\$60,393	\$604	6.0%	\$32
\$50,393	\$11,000	\$61,393	\$614	5.6%	\$33
\$50,393	\$12,000	\$62,393	\$624	5.2%	\$34
\$50,393	\$13,000	\$63,393	\$634	4.9%	\$34
\$50,393	\$14,000	\$64,393	\$644	4.6%	\$35

## Differences in Teacher Salary Impacts Morale and Retention

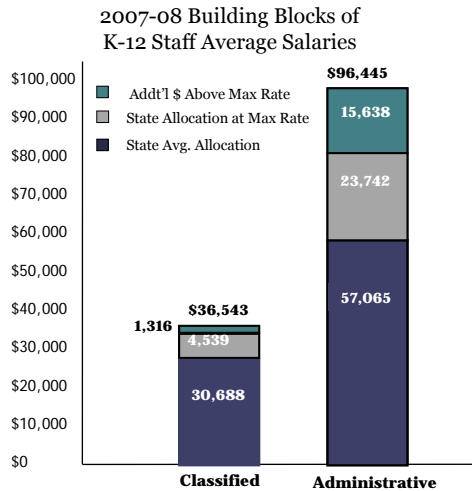
2008-09 Teacher Salaries  
(average experience and education)



1. Base salary most districts
2. Base salary of Everett
  - Equalizing will cost \$167 million and raise most teacher salaries by 5%
3. Additional (supplemental) salaries average nearly \$8,750 per teacher statewide

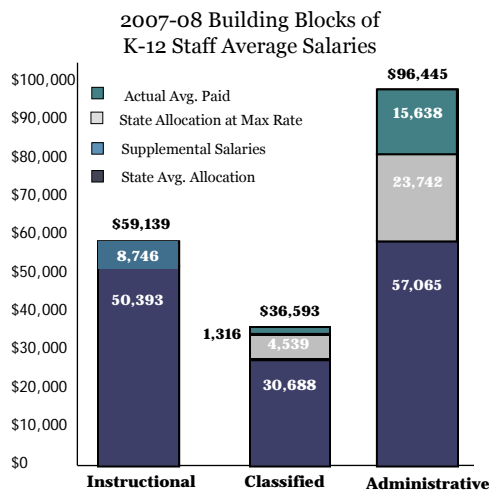
\*2008-09 is projected from 2007-08  
 \*\*2007-08 reported; full-time teachers only, no outliers

## Districts Must Subsidize Classified/Admin Salaries by \$366 Million



1. Average total salary
  2. State average allocation
  3. District allocations vary, first step is to equalize salary allocations (\$226 million state cost to equalize)
  4. After equalization, the state still must identify an appropriate method to address true costs districts experience (\$140 million difference between equalized allocations and district costs)
- **Districts also pay difference in salary and COLA/benefits**

## Local Funds Pay COLA on 4 Levels



### Local Funds COLA Effect (4.1% in 2009-10)

1. COLA on average salary paid for "local staff units" (**\$44 million**)
2. COLA on all supplemental salaries, all staff (**\$20 million**)
3. COLA on unequalized portion of Classified and Administrative salaries, all staff (**\$10 million**)
4. COLA on difference between the state maximum allocation and the salary districts actually pay, all staff (**\$5 million**)

**\$79 million total**

## Salaries and Benefits Summary

### Compensation Rate of Growth

- Total compensation costs increase at 4-8% per year
- COLAs and Other at 2-6% per year
- Additional salaries at 8% per year
- Health benefits increase 12% per year
- Pensions, recently 18-20% per year, although volatile

### Local Funds Rate of Growth

- I-728, about 2% per year
- Federal Funds, 6-10% per year
- Levy Funds, about 6% per year

## Structural Disconnect May Continue in 2009-10 School Year

Cost of 2009-10 I-732 COLA on Local Funds (COLA projected at 4.1%)	\$81 per student
<u>Other Compensation (Health/Pensions)</u>	<u>\$36 per student</u>
<b>Subtotal Increase on Local Funds</b>	<b>\$117 per student</b>
1% COLA above I-732 COLA for all Teachers in a District (All Local Cost)	\$28 - \$35 per student
Typical Local Funds Growth (2007 to 2008)	\$75-200 per student

## Compensation Dynamics and the Financial Crisis

- Compensation costs grow faster than revenue sources
- Out-dated teacher salary schedule drives morale and retention issues
- State does not pay for the full cost of Basic Education Classified and Administrative staff
- State does not pay for basic education-related supplemental salaries
- COLAs on the differential between Actual and State-funded is Significant
- State does not pay for enough staff

## Other Factors for 2009-10

**If** Revenue vs. Cost Patterns for 2008-09 continue in 2009-10:

- Cost increases for Utilities and Insurance will be Greater than the increases in State Funding for All NERC
- NERC will cost \$500 million more than the state funds
- Transportation will cost \$125 million more than the state funds
- Special Education will cost \$150 million more than the state funds
- Continued pressure and need to invest more in facilities maintenance, adopt new curriculum, expand programs

## Factors for 2009-10 Continued

- Reductions in state funding will compound the problems
  - Lack of State COLA helps district solvency, but hurts employees; districts under pressure either way
  - Reserves are too low to avoid programmatic cuts
    - Staff reductions a reality
    - School closures also
  - Fewer staff will want to retire; RIF notices will be “actual”
  - ***Students: fewer educators to help them meet higher standards***

## Proposed Solution

## Solutions Needed

1. Equalize salary allocations
2. Identify an appropriate allocation method for Classified and Administrator salaries
3. Implement a new Teacher salary schedule
4. Identify the supplemental salary costs that are a basic education responsibility
5. Identify the appropriate staffing levels for basic education
6. Get a handle on health benefits costs
7. Fix everything else too

## Finance Task Force Basics

- Report is final
- Phase-in over six years, beginning 2011
- Define Basic Education for 21<sup>st</sup> Century
  - New allocation structure, prototypical schools
  - Core 24 opportunity
  - More instructional time
  - More teacher professional development
  - More staff
  - Much more help for struggling students
  - Different salary allocation
  - More non-salary costs
  - More accountability via State Board, Finance data

# BEFTF: Teacher Salaries

## Base Salary Level

- I-732 drives COLA
- Amount not defined in report
- Will be set based on comparable occupations in Wa
- Adjust for regional cost of living
- 10 total contract days above school year
- Annual increases for experience; No annual increases for education credits

## Other Features

- Increase base for:
  - Professional Certification
  - National Board Certification
- Performance-dimension for improving schools
- TRI:
  - Time remains and is not limited
  - Responsibility/Incentive, eliminated
- Mentor and Peer Reviewer Stipends
- Hard-to-Staff Schools Stipends

# BEFTF: Other Compensation

## Classified/Administrator

- I-732 drives COLA
- More classified staff are paid for by state
- Same number of administrators
- Salary allocations are re-based using 2008-09 actual, and then inflated by I-732 COLA
  - Better than equalization

## Staffing Levels

### Core Staff per 1,000 Students:

	Elem	Mid	High
Current	74.4	67.2	67.2
BEFTF*	98.6	82.2	74.4

\*Approximate

### Additional Staff for:

- high poverty schools (lower class size)
- LAP, Bilingual
- CTE
- Lab Science

## BEFTF: Other Miscellaneous

- Comprehensive salary survey; comparisons to other occupations, includes all forms of compensation
- State accountability system:
  - State Board of Education
  - Academic Watch for persistently low performance
  - Performance Improvement Grants
- Financial data:
  - Expenditures by school
  - Expenditures by revenue source
  - Alignment with new allocation method

What Does the Next  
Biennium Hold?

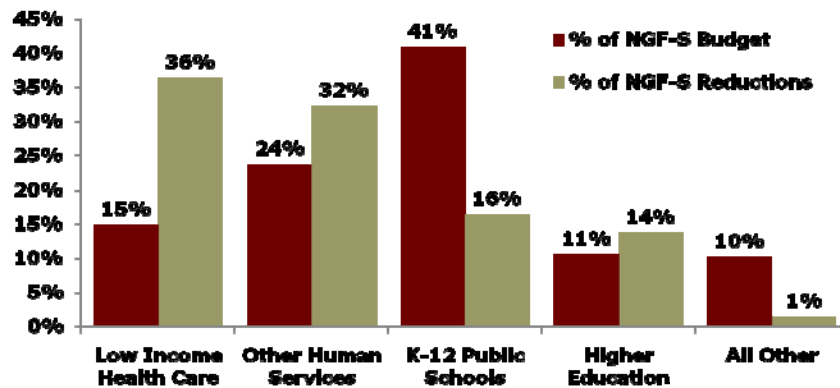
## Budget Context

- \$5.8 Billion projected deficit for biennium (November)
  - Through 6/30/2011
  - Eliminate all of Higher Education, still \$2 B to cut
  - Revenue outlook not improving
- COLA is 4.1% in 2009-10; 0% in 2010-11
  - \$360 M cost included in deficit projection
  - Drives an additional \$158 M in local funds needed
- State cannot cut “basic education”
- Non-basic items include (biennial cost):
  - K-4 enhancement (\$388 M)
  - 2 LID (\$75 M)
  - Levy equalization (\$456 M)
  - I-728 (\$908 M)
  - Gifted education (\$20 M)
  - Health Benefits inflation (\$96 M if 7% inflation)

## Governor Proposed Budget

- No COLA for 2009-11 Biennium
  - \$360 M savings in K-12; \$620 M savings in state government total
- I-728 reduced 22%
  - \$198 M cut from \$908 M program
- Levy Equalization reduced 33%
  - \$147 M cut from \$456 M program
- \$48 M in programmatic cuts (e.g., Reading Corps)
- \$40 M; eliminate Math/Science Professional Development

## Schools are 41% of the Budget; Take 16% of the Governor's Proposed Reduction



*\* Reflects net near general fund policy change after accounting for reductions and increases, but excludes impacts of compensation-related adjustments and assumed federal funding increases.*

Source: Senate Ways and Means Committee Staff

## Interim Possibilities: Caution!!!

- Budget reductions by state are a given
  - LEA probably not as deep as proposed by Governor
- Likely no, or low COLA funded by state
  - Local funds value of \$158 million or \$80/student/year
- Health care inflation funded
- Health care purchase-shift debate
- Pension contribution adjustment
- More federal funds
- Substantial debate re: days of school
- Budget delay will make May notices difficult

## Interim Possibilities: Caution!!!

### New Funding System Development

- More and different data collection on district expenditures
  - Expenditures by school
  - Expenditures by revenue source
- Contracts reporting to state
  - Supplemental salaries differentiated by purpose
  - Value of inflators
- Continued push for student data by teacher
- More transparency in state allocations
- New Salary, Peer Evaluation, Certification requirements

## I Appreciate Feedback!

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- Basic Education Finance Task Force:  
<http://www.leg.wa.gov/Joint/Committees/BEF/>
- Basic Education Legislation:  
HB 1410; SB 5444 (BEFTF)  
HB 1817; SB 5607 (Full Funding Coalition)