

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: House Bill 443 (First Edition)

SHORT TITLE: Increase Class Size in the Public Schools.

SPONSOR(S): Representatives Stam and Wiley

FISCAL IMPACT					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
REVENUES					
EXPENDITURES	(\$151,692,440)	(\$160,139,051)	(\$171,130,432)	(\$182,926,550)	(\$195,237,855)
POSITIONS	(2,822.5)	(2,849.5)	(2,896.0)	(2,950.0)	(3,005.0)
[NOTE: Positions are State-funded but locally hired]					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Public Instruction					
EFFECTIVE DATE: July 1, 2009					

BILL SUMMARY: Directs that, regardless of any other provision of law, for the 2009-10 school year and subsequent years, (1) the maximum class size limits for grades 1-12 in the public schools and the allotment ratios are to be one student higher than they were for the 2008-09 school year, and (2) the maximum average class size limits for grades 1-12 in the public schools are to be two students higher than they were for the 2008-09 school year.

ASSUMPTIONS AND METHODOLOGY: The Department of Public Instruction (DPI) allots teaching positions to all North Carolina Local School Administrative Units (LEAs) via the Classroom Teachers allotment. These positions are fully State-funded and are guaranteed regardless of the experience level and other compensation factors of the teacher that fills the position. Positions are allotted to the LEAs based on student headcount (as measured by Average Daily Membership or ADM) in various grade spans and rounded to the nearest half of a position.

The State Board of Education's FY 2008-09 Allotment Manual outlines the allotment ratios as well as the permissible average and maximum class sizes. The ratios and class sizes are as follows:

Current Law/State Board of Education Policy			
		CLASS SIZE	
		<u>All Classes in LEA</u>	<u>Individual Class</u>
Grades:	<u>ADM per Position</u>	<u>Maximum Average</u>	<u>Maximum</u>
K-3	18	21	24
4-6	22	26	29
7-8	21	26	29
9	24.5	26	29
10-12	26.64	29	32

The following table details the impact of H 443 on these ratios and averages:

H.B. 443 Adjustments (for all grades but Kindergarten)			
		CLASS SIZE	
		(add 2)	(add 1)
		<u>All Classes in LEA</u>	<u>Individual Class</u>
Grades:	<u>ADM per Position</u>	<u>Maximum Average</u>	<u>Maximum</u>
K	18	21	24
1-3	19	23	25
4-6	23	28	30
7-8	22	28	30
9	25.5	28	30
10-12	27.64	31	33

Funds are appropriated for the Classroom Teachers allotment based on the positions generated by the student headcount in each grade span multiplied by the average salary and benefits for a State-paid North Carolina public school teacher. For this analysis, the averages are estimated based on data from the 6th pay period in the 2008-09 school year.

<u>Compensation</u>	<u>Average (\$)</u>
Salary	42,825
Social Security	3,276
Retirement	3,486
Hospitalization	4,157
Salary w/ Benefits	53,744

The final step in estimating the foregone expenditures associated with the modified teacher allotment ratios is to calculate the reduction in FY 2009-10 positions. This table identifies those reductions by grade span and the concurrent anticipated expenditure reduction.

	<u>Number of</u>	<u>Estimated</u>
Grades:	Positions Reduced	Reduced Expenditures (\$)
1-3	(1,045.5)	(56,189,352)
4-6	(688.5)	(37,002,744)
7-8	(476.5)	(25,609,016)
9	(204.5)	(10,990,648)
10-12	(407.5)	(21,900,680)
Total	(2822.5)	(151,692,440)

To estimate the impact of this bill in future fiscal years, we can use DPI's 5-year Average Daily Membership projections to estimate projected teaching positions under current law or H 443. DPI has not estimated FY 2013-14 enrollment, so the FY 2012-13 projected percentage increase is also used for FY 2013-14.

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Allotted ADM	1,464,914	1,478,795	1,502,811	1,530,733	1,559,174
Annual ADM Growth (%)	N/A	.947 %	1.624 %	1.858 %	1.858 %
Projected Positions	68,823.5	69,475.5	70,604	71,916	73,252
Revised Projection (per H 443)	66,001	66,626	67,708	68,966	70,247
Total, Position Reduction	(2822.5)	(2,849.5)	(2,896)	(2,950)	(3,005)

To estimate the projected growth in average teacher salary and benefits in future years, we use Moody's Economy.com to estimate wage inflation. Social Security and Retirement are computed as percentages of total salaries and those percentages are held constant in this analysis:

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Salary Growth	N/A	4.95%	5.56%	5.31%	5.12%
Projected Av. Sal.	\$42,825	\$44,945	\$47,444	\$49,963	\$52,521
Social Security (7.65%)	\$3,276	\$3,438	\$3,629	\$3,822	\$4,018
Retirement (8.14%)	\$3,486	\$3,659	\$3,862	\$4,067	\$4,275
Hospitalization	\$4,157	\$4,157	\$4,157	\$4,157	\$4,157
Total, Projected Salary & Benefits	\$53,744	\$56,199	\$59,092	\$62,009	\$64,971
Position Reduction	(2822.5)	(2,849.5)	(2,896)	(2,950)	(3,005)
Total, Change in Expenditures	(\$151,692,440)	(\$160,139,051)	(\$171,130,432)	(\$182,926,550)	(\$195,237,855)

SOURCES OF DATA: Department of Public Instruction, Moody's Economy.com

TECHNICAL CONSIDERATIONS: There are three considerations which may affect the outyear projections of this bill's fiscal impact. This fiscal note uses assumptions made by Moody's Economy.com to estimate the projected increase in the cost of salaries over the next five fiscal years. However, the General Assembly sets the salary schedule for public school teachers and may choose to adjust future salaries in a manner that is not correlated with projected private sector growth. As such, future savings may be slightly overstated.

Secondly, the composition of the teaching workforce changes annually. The main drivers of the State's cost for paying teachers are a teacher's experience and possession of advanced degrees or credentials. It is possible that the workforce may become, on average, more or less experienced. The workforce could also have a greater percentage of advanced degrees and certification. There are no estimates available for changes in these workforce characteristics over the next five years.

Lastly, LEAs are allotted guaranteed teacher positions based on the student headcount in each grade. This analysis does not include a 5-year projection of ADM by grade, so there may be some unforecasted impacts if ADM growth is larger in the earlier grades as compared to the current growth. The earlier grades have lower allotment ratios, which generate more positions per ADM than in the later grades. As a result, greater than expected ADM growth in these grades would result in larger savings. Conversely, lower than expected ADM growth in the early grades would result in savings below the projected amounts.

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY: Brian Matteson

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

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