

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 781 (First Edition)

**SHORT TITLE:** No Penalty for Teachers Taking Personal Leave

**SPONSOR(S):** Senators Dannelly; Clodfelter, Dorsett, Lucas, Malone, Metcalf, and Moore

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2003-04</u></b>	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>
<b>EXPENDITURES (in millions)</b>					
<b>General Fund</b>					
Teacher Salaries	\$2.9	\$2.9	\$2.9	\$2.9	\$2.9
Non-Instructional Support Allotment*	(\$2.9)	(\$2.9)	(\$2.9)	(\$2.9)	(\$2.9)
	\$0.0-17.4	\$0.0-6.7	\$0.0-6.9	\$0.0-7.1	\$0.0-7.4
	<i>For detailed explanation see Assumptions &amp; Methodology</i>				
<b>Local Funds</b>	<b>\$0.8-1.6</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>
<b>Federal Funds</b>	<b>\$0.6-1.5</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>	<b>\$0.8</b>
<b>POSITIONS:</b>	N/A				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Local Education Agencies (LEAs), State Public School Fund, Department of Public Instruction (DPI),					
<b>EFFECTIVE DATE:</b> July 1, 2003.					
* <b>Note:</b> Net General Fund (GF) expenditures will not decrease, but LEAs will receive (\$2.9) million less annually for paying substitute teachers. LEAs will also face increased expenditures for substitute teachers of up to \$17.4 million (including one-time costs of \$10.9 million) in FY 2003-04 and up to \$6.7-7.4 million annually thereafter. These expenditures appear under the GF heading because it is assumed the General Assembly will appropriate additional funds to cover the LEAs' increased expenditures for substitute teachers.					

**BILL SUMMARY:** The bill eliminates the deduction in salary required under current statute<sup>1</sup> for a teacher using personal leave on an instructional day. The savings from the deduction, identified in statute as the “substitute deduction” and defined by the Department of Public

<sup>1</sup> G.S. 115C-302.1(d)

Instruction (DPI)<sup>2</sup> as \$50, is used to partially offset the cost of a substitute teacher for the day on which the teacher is absent. By eliminating this reduction, the bill allows teachers to take personal leave on instructional days and still retain their full salaries.

**ASSUMPTIONS AND METHODOLOGY:** Teachers will no longer be contributing toward paying the cost of substitute teachers. Local educational agencies (LEAs) will therefore bear the full cost of paying the substitutes. Both allotments (deducted pay allotted back to the LEAs<sup>3</sup>) and expenditures (increased number of substitutes) will likely be affected. This analysis uses historical data on allotments and expenditures, and number of leave days projected to be used in the future to estimate the fiscal impact on LEAs.

## **Historical Data**

### *State Paid Teachers*

According to DPI, in fiscal year 2001-02, State paid teachers took 57,495 personal leave days. At \$50 per day, the total amount deducted from those teachers' salaries and re-allotted to the LEAs was approximately \$2.9 million. Assuming a total cost to the LEA based on daily substitute teacher pay of \$71, which is the average of pay for certified (\$75) and non-certified (\$57) substitutes, plus social security tax, total expenditures for substitutes for FY 2001-02 were approximately \$4.4 million for State paid teachers.

### *Locally and Federally Paid Teachers*

In FY 2001-02, locally paid teachers took approximately<sup>4</sup> 4,200 leave days (total deduction = \$210,000) and federally paid teachers took approximately 4,900 leave days (\$245,000). In these cases, the substitute deduction simply reduces the effective net cost to the LEA associated with substitute teachers<sup>5</sup>. Total cost of substitutes for locally paid teachers was \$321,012; for federally paid teachers total cost was \$374,514. Taking into account the reduced pay for teachers, the LEAs, therefore, expended an effective net of \$111,012 for substitutes associated with locally paid teachers and a net of \$129,514 for those associated with federally paid teachers.

## **Effects of New Policy on Rate of Utilization**

It seems reasonable to expect that the current "substitute deduction" policy has dampened teachers' utilization of their earned personal leave days. With this deduction eliminated, one might expect an increase in the rate by which teachers take personal leave. No information is available on how this rate might be affected by the policy change. This analysis, therefore, assumes that utilization will increase by some amount, possibly up to a 100% utilization rate. As no information is available on the amount of personal leave days that are earned but unused (and thus carried forward for use in a future year<sup>6</sup>), the analysis first assumes simply that up to 100%

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<sup>2</sup> Financial Policy & Procedure Manual, Part 2, Section 3.1

<sup>3</sup> The "substitute deductions" actually come out of State allotments to the LEAs for State teacher salaries, then are re-allotted back to the LEAs to help pay for substitutes. Thus, given a fixed number of leave days taken by State paid teachers, eliminating the substitute deduction would not increase expenses to the LEA, but would reduce State funds allotted to them. For locally paid teachers, the substitute deduction simply shifts expenditures from teacher to substitute pay, so elimination of the substitute deduction affects only expenditures.

<sup>4</sup> Actual numbers were not available; estimates are based on the percent of days taken by State paid teachers in FY 2001-02.

<sup>5</sup> Since expenditures for teachers are reduced by the amount of the substitute deductions and the deducted funds can then be used to pay substitutes instead, the "effective net cost" for substitutes can be viewed as being the actual expenditure less the amount covered by substitute deductions.

<sup>6</sup> As per G.S. 115C-302.1(d) personal leave may be accumulated to a maximum of five days.

of all earned leave time in a given year will be utilized. To account for use of leave days that are carried forward into FY 2003-04, the analysis assumes an average utilization of 2 additional days per teacher in the first year under the new policy. The number of State paid teachers is estimated to grow by 1,500 per year, while the number of locally paid and federally paid teachers hold steady at FY 2003-04 levels. The following chart illustrates the number of personal leave days projected to be earned and used per year for each category of teacher and total expenditures by LEAs for related substitute teachers:

### Projected Utilization and Cost of Teacher Personal Leave Days

	Fiscal Year 2003-04	Fiscal Year 2004-05	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08
<b>STATE</b>					
Number of Teachers	76,755	78,255	79,755	81,255	82,755
Days Earned/Taken (2 per yr)	153,510	156,510	159,510	162,510	165,510
Annual Expenditure by LEAs	\$ 10,899,207	\$ 11,112,207	\$ 11,325,207	\$ 11,538,207	\$ 11,751,207
One-time Expenditure	\$ 10,899,207	\$ -	\$ -	\$ -	\$ -
Total Expenditure by LEAs	<b>\$ 21,798,414</b>	<b>\$ 11,112,207</b>	<b>\$ 11,325,207</b>	<b>\$ 11,538,207</b>	<b>\$ 11,751,207</b>
<b>LOCAL</b>					
Number of Teachers	6,204	6,204	6,204	6,204	6,204
Days Earned/Taken	12,408	12,408	12,408	12,408	12,408
Annual Expenditure by LEAs	\$ 880,998	\$ 880,998	\$ 880,998	\$ 880,998	\$ 880,998
One-time Expenditure	\$ 880,998	\$ -	\$ -	\$ -	\$ -
Total Expenditure by LEAs	<b>\$ 1,761,996</b>	<b>\$ 880,998</b>	<b>\$ 880,998</b>	<b>\$ 880,998</b>	<b>\$ 880,998</b>
<b>FEDERAL</b>					
Number of Teachers	5,314	5,714	5,714	5,714	5,714
Days Earned/Taken	10,628	11,428	11,428	11,428	11,428
Annual Expenditure by LEAs	\$ 754,571	\$ 811,371	\$ 811,371	\$ 811,371	\$ 811,371
One-time Expenditure	\$ 754,571	\$ -	\$ -	\$ -	\$ -
Total Expenditure by LEAs	<b>\$ 1,509,142</b>	<b>\$ 811,371</b>	<b>\$ 811,371</b>	<b>\$ 811,371</b>	<b>\$ 811,371</b>

### **Fiscal Impact**

#### *State Paid Teachers*

As discussed above in the Historical Data section, the LEAs will lose approximately \$2.9 million in annual allotments from the eliminated substitute deduction from State paid teachers. In addition, as illustrated by the chart above, annual expenditures for State paid teachers will increase by approximately \$6.5-7.3 million (total projected expenditures as shown in chart, less current expenditures of \$4.4 million) due to increased utilization. LEAs' annual net increased expenditure for State paid teachers will, therefore, be between \$9.4 and \$10.2 million (i.e., the sum of lost allotments plus increased expenditures). In FY 2003-04, the one-time increase in expenditures associated with teachers using leave days that they had carried forward from previous years will be approximately \$10.9 million. Total increased expenditures in FY 2003-04 will be up to \$17.4 million. All of these increased costs will either have to be absorbed by the LEAs from local funds or the State will need to appropriate more funding to cover the costs of

substitute teacher pay. While the bill has no net impact on the State General Fund, it seems likely that there will be pressure for the State to appropriate more in the non-instructional support allotment that LEAs can use to pay substitute teachers. The box at the top of the analysis, therefore, assumes that the General Assembly will increase General Fund appropriations accordingly.

*Locally and Federally Paid Teachers*

LEAs will also have increased expenditures for substitutes for locally and federally paid teachers. Effective net expenditures for substitutes will no longer be reduced by the amount of the substitute deduction. In addition, increased utilization of teacher personal leave will increase baseline expenditures for substitutes. Annual net expenditures for substitutes associated with both locally and federally paid teachers will each increase by approximately \$800,000. Including the one-time increase associated with use of days carried forward, the total increase in FY 2003-04 will be up to \$1.6 million for locally paid and up to \$1.5 million for federally paid. The result of these increases will be fewer local and federal resources available to LEAs to be used for various other purposes (such as local teacher supplements and federally funded services for children with special needs).

**SOURCES OF DATA:** Department of Public Instruction

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** Adam Levinson, Fiscal Research Division

**APPROVED BY:** James D. Johnson, Director, Fiscal Research Division

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