

**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2005**

**Legislative Fiscal Note**

**BILL NUMBER:** House Bill 595 (First Edition)

**SHORT TITLE:** Decrease Teachers' Cost for Personal Leave.

**SPONSOR(S):** Representative Wainwright

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<u><b>FY 2005-06</b></u>	<u><b>FY 2006-07</b></u>	<u><b>FY 2007-08</b></u>	<u><b>FY 2008-09</b></u>	<u><b>FY 2009-10</b></u>
<b>EXPENDITURES</b>					
<b>(in millions):</b>					
<b>General Fund</b>					
Teacher Salaries	\$1.7	\$1.7	\$1.7	\$1.7	\$1.7
Non-Instructional Support Allotment*	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)	(\$1.7)
Projected Increase in Non-Instructional Allotment	\$0.0-18.6	\$0.0-7.0	\$0.0-7.1	\$0.0-7.3	\$0.0-7.5
<i>For detailed explanation, see Assumptions and Methodology section.</i>					
Local Funds	\$0.1-1.6	\$0.1-0.9	\$0.1-0.9	\$0.1-0.9	\$0.1-0.9
Federal Funds	\$0.1-1.6	\$0.1-0.9	\$0.1-0.9	\$0.1-0.9	\$0.1-0.9
<b>POSITIONS</b>					
<b>(cumulative):</b> N/A					

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:** Local Education Agencies (LEAs), State Public School Fund, Department of Public Instruction (DPI)

**EFFECTIVE DATE:** July 1, 2005.

\* **Note:** Net General Fund (GF) expenditures will not decrease, but the State will allot (\$1.7) million less annually to LEAs for paying substitute teachers. LEAs will also face increased expenditures for substitute teachers of up to \$18.6 million (including one-time costs of up to \$11.6 million) in FY 2005-06 and up to \$7.0-7.5 million annually thereafter. These expenditures appear under the GF heading because it is assumed that the General Assembly will appropriate additional funds to cover the LEAs' increased expenditures for substitute teachers.

**BILL SUMMARY:** The bill reduces by half, from \$50 to \$25, the deduction from salary required under current statute<sup>1</sup> for a teacher using personal leave on an instructional day. The savings from

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

this “substitute deduction,” is used to partially offset the cost of a substitute teacher for the day on which the teacher is absent.

**ASSUMPTIONS AND METHODOLOGY:** Teachers will be contributing half as much as they currently do toward paying the cost of substitute teachers. Local educational agencies (LEAs) will therefore bear the more of the cost of paying the substitutes. Both allotments (deducted pay allotted back to the LEAs<sup>2</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*

In fiscal year 2003-04, 32,651 State-paid teachers used approximately 67,592 personal leave days (average of 2.1 days per teacher taking personal leave).<sup>3</sup> At \$50 per day, the total amount deducted from those teachers’ salaries and re-allotted to the LEAs was approximately \$3.4 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 2003-04 were approximately \$4.8 million for State-paid teachers. The substitute deduction therefore offset approximately 71% (= \$3.4/\$4.8 million) of the cost of substitute teachers.

### *Locally and Federally Paid Teachers*

In FY 2003-04, 2,434 locally paid teachers used approximately 5,039 leave days (total deduction = \$267,601) and 2,475 federally paid teachers took approximately 5,124 leave days (\$312,976). In these cases, the substitute deduction simply reduces the effective net cost to the LEA associated with substitute teachers<sup>4</sup>. Total cost of substitutes for locally paid teachers was \$363,776; for federally paid teachers total cost was \$357,801. Taking into account the reduced pay for teachers, the LEAs therefore expended an effective net of \$105,829 for substitutes associated with locally paid teachers and a net of \$107,596 for those associated with federally paid teachers.

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

It is reasonable to assume that the current “substitute deduction” policy has dampened teachers’ utilization of earned personal leave days. With the deduction reduced by half, one might expect increased utilization. In FY 2003-04, approximately 40% of teachers used an average of 2.1 days of personal leave. No information is available on how utilization might be affected by the policy change. This analysis therefore assumes that utilization will increase by some amount, possibly up

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<sup>2</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, reducing the substitute deduction would not increase expenses to the LEA, but would reduce State funds allotted to them to help cover expenses. For locally paid teachers, the substitute deduction simply shifts expenditures from teacher to substitute pay, so reduction of the substitute deduction effects only expenditures.

<sup>3</sup> Based on actual data for all teachers in FY 2003-04; estimates of days taken by State, local, and federal teachers are based on the number of teachers in each of those categories. Assumes that teachers taking personal leave are distributed proportionally across the categories.

<sup>4</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.

to 100% utilization. As no information is available on the current amount of personal leave days that are earned but unused (and thus carried forward for use in a future year<sup>5</sup>), the analysis first assumes simply that up to 100% 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 2005-06, 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 1,200 per year, while the estimated number of locally paid and federally paid teachers is assumed to remain at FY 2004-05 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 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
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#### STATE

Number of Teachers	81,624	82,824	84,024	85,224	86,424
Days Earned/Taken (2 per yr)	163,248	165,648	168,048	170,448	172,848
Annual Expenditure by LEAs	\$ 11,590,608	\$ 11,761,008	\$ 11,931,408	\$ 12,101,808	\$ 12,272,208
One-time Expenditure	\$ 11,590,608	\$ -	\$ -	\$ -	\$ -
<b>Total Expenditure by LEAs</b>	<b>\$23,181,216</b>	<b>\$11,761,008</b>	<b>\$11,931,408</b>	<b>\$12,101,808</b>	<b>\$12,272,208</b>

#### LOCAL

Number of Teachers	6,108	6,108	6,108	6,108	6,108
Days Earned/Taken (2 per yr)	12,216	12,216	12,216	12,216	12,216
Annual Expenditure by LEAs	\$ 867,336	\$ 867,336	\$ 867,336	\$ 867,336	\$ 867,336
One-time Expenditure	\$ 867,336	\$ -	\$ -	\$ -	\$ -
<b>Total Expenditure by LEAs</b>	<b>\$ 1,734,672</b>	<b>\$ 867,336</b>	<b>\$ 867,336</b>	<b>\$ 867,336</b>	<b>\$ 867,336</b>

#### FEDERAL

Number of Teachers	6,210	6,210	6,210	6,210	6,210
Days Earned/Taken (2 per yr)	12,420	12,420	12,420	12,420	12,420
Annual Expenditure by LEAs	\$ 881,820	\$ 881,820	\$ 881,820	\$ 881,820	\$ 881,820
One-time Expenditure	\$ 881,820	\$ -	\$ -	\$ -	\$ -
<b>Total Expenditure by LEAs</b>	<b>\$ 1,763,640</b>	<b>\$ 881,820</b>	<b>\$ 881,820</b>	<b>\$ 881,820</b>	<b>\$ 881,820</b>

### Fiscal Impact

#### *State-paid Teachers*

As discussed above in the Historical Data section, the LEAs will lose approximately (\$1.7 million) in annual allotments as a result of the reduced substitute deduction from State-paid teachers. In

<sup>5</sup> As per G.S. 115C-302.1(d) personal leave may be accumulated to a maximum of five days.

addition, as illustrated by the chart above, annual expenditures for State-paid teachers could increase by up to approximately \$6.8-7.5 million (total projected expenditures as shown in chart, less current expenditures of \$4.8 million) due to increased utilization. LEAs' annual net increased expenditure for State-paid teachers (i.e., the sum of lost allotments plus increased expenditures) will therefore be approximately \$8.5-9.2 million. In FY 2005-06 the one-time increase in expenditures associated with teachers using leave days that they had carried forward from previous years is estimated to be up to approximately \$11.6 million. Total increased expenditures in FY 2005-06 could therefore be up to \$20.1 million. All of these increased costs would either have to be absorbed by the LEAs from local funds or the State would need to appropriate more funding to cover the costs of substitute teacher pay. While the bill has no net impact on State General Fund expenditures, 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 now be reduced by \$25 rather than \$50 per substitute. This will lead to increased expenditures for the LEAs. 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 a minimum of \$125,000, possibly up to approximately \$900,000. Including the one-time increase associated with use of days carried forward, the total increase in FY 2005-06 will be up to \$1.8 million for both locally and 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

**DATE:** March 29, 2005



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