Analysis of the Per-Educator payment

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February 4, 2009

This is a brief analysis of the per-Educator payment termed in statute the "Quality Educator payment". It looks at the rationale offered for this payment and analyzes how well the payment accomplishes these purposes. It includes some discussion of alternative approaches.

History

The per-educator payment was initially enacted in the special session of 2005. It was a proposal of the Schweitzer administration. The Quality Schools Interim Committee (QSIC) proposed a classroom entitlement based on the number of students in a district to calculate the number of per-educator allotments. It was subsequently modified to be based on the actual count of educational professionals and was extended to educational professionals in state agencies.

Purpose

The stated purposes and benefits of the per-Educator payment include[1]:

- improves teacher recruitment and retention;
- provides a stable funding source independent of enrollment;
- does not increase local taxes;
- meets the needs of isolated schools;

Who benefits

To determine the districts that benefit from the addition of the per-educator payment the state aid from a 3% increase in the basic and per-ANB entitlements is compared to spending the same amount through an increase in the per-educator payment. The comparable increase in the per-educator payment for FY2010 is $1289.92. The amount of state aid each district receives under the two approaches was calculated using the OBPP school model. The first table shows three-fourths of high school districts, including the majority in each size range receive more state aid when the money is distributed through an entitlement increase.

When basic and per-ANB entitlements are increased districts must contribute their share of the GTB and may levy additional over-BASE amounts. The per-educator payment does not require or authorize the district to increase district levies. The additional district funds are provided by district property taxes. The tables in this analysis compare the state aid districts receive only excluding any additional district levies.

[1] "School Funding Status Report to Attorney General" Governor Schweitzer, Feb 8, 2008.

Number of Districts Receiving More State Aid From

High School ANB	Per-Educ	Entitlement
11-25	1	3
26-50	6	13
51-75	3	7
76-100	3	9
101-150	5	7
151-200		12
201-300	4	9
301-400	1	4
401-500	1	5
501-750	1	6
751-1000		2
1501-2000	1	1
2001-3000		1
Over3000		4
Grand Total	26	83

The second table shows four-fifths of elementary districts receive more state aid with the per-educator increase. The elementary districts show a smaller impact from the entitlement increase primarily because of the smaller basic entitlement, $24,580 vs. $250,958 for high schools. A small increase in the elementary basic entitlement (less than $5000) would shift the majority of elementary districts to gain more from entitlements than the per-educator payment.

Number of Districts Receiving More State Aid From

Elementary ANB	Per-Educ	Entitlement
1-10	37	3
11-25	31	6
26-50	24	4
51-75	22	1
76-100	12	2
101-150	14	
151-200	18	5
201-300	13	7
301-400	14	3
401-500	5	4
501-750	4	6
751-1000	2	4
1001-1500	6	4
1501-2000		1
2001-3000		2
Over3000	3	3
Grand Total	205	55

High taxable value and/or a relatively large number of educators relative to ANB are the chief forces that cause districts to receive higher state aid from the per-educator payment than from an equivalent statewide expenditure distributed through basic and per-ANB entitlement increases. As a district's relative property wealth increases the portion of its BASE budget funded by the state falls because of the lower share of GTB paid by the state. This results in higher wealth districts getting a smaller increase in state aid for any

level of basic or per-ANB entitlement increase. The per-educator payment is not affected by property wealth. A high number of educators relative to students give a district more per-educator entitlements. The table below illustrates the impact of higher property wealth and high numbers of educators per student on which form of aid generates the largest amount of state aid for the district.

	Number of Districts Receiving More State Aid From	
	Entitlement Increase	Per-Educator
Elementary		
High Taxable Value/ANB	5	126
Low Taxable Value/ANB	50	79
High Educators/ANB	3	34
Low Educators/ANB	24	19
High School		
High Taxable Value/ANB	32	22
Low Taxable Value/ANB	51	4
High Educators/ANB	11	7
Low Educators/ANB	13	0

In the above table "high educators/ANB" means districts whose ratio of FTE to ANB is over one standard deviation above the average for the size group and "high taxable value/ANB" means districts whose taxable value/ANB is in the top two quartiles.

Equity

The previous analysis indicates the beneficiaries of the per-educator payment are much more likely to be districts with high wealth or high staffing. This is counter to most equity considerations as it helps districts who have higher ability to support spending above the BASE and/or who have the most educators i.e. those who already are ahead. The per-educator payment undermines the equity provided through the GTB funding used for basic and per-ANB entitlements.

Stability

Between 2006 and 2008 33 of 69 high schools with less than 200 ANB reduced their number of educators in response to enrollment declines while 2 of 16 high schools with greater than 500 ANB did so. The ANB net decline for the 200 and under group was 117 while for the 500 and over group it was 134 ANB. From these figures it appears that little stability is provided to the group most vulnerable to the impacts of decline – small high schools. The per-educator payment for these small high schools represents a drain on resources because as they determine the need to reduce educators they are further penalized by the reduction in state aid. The same amount of state aid invested in the basic and per-ANB entitlements would remove the penalty from the decision. Increases

in the basic entitlement provide aid that is not subject to enrollment either directly or indirectly.

The per-educator payment may be an obstacle when districts facing continued decline in enrollment must decide to make resource allocation adjustments to balance their budgets. When a district chooses to reduce the number of educators the amount received from the per-educator payment is reduced thereby limiting the resources that are freed for other priorities of the district. In the case of a district with increasing enrollment the decision to add teachers generates additional funds.

Stability can be increased for schools by increasing the basic entitlement. If this method is used it targets the greatest impact on smaller districts and is not affected by the district's decision to reduce staff.

Incentives

The incentives a formula factor or entitlement creates are important. They should be used to improve the efficiency and effectiveness of schools. They offer the opportunity to encourage the allocation of district resources in ways found to improve education without the need for state mandates. Typically these incentives are called "educationally relevant factors". Most such factors are targeted on educational needs such as the "at risk" (based on the percentage of children below the federal poverty line) and "American Indian achievement gap" (based on the number of American Indian students) entitlements where study has found that a district must apply additional resources to effectively educate affected students.

Because the per-Educator payment ties an amount to each educator it reduces the marginal cost of adding educators by the additional state aid a district receives when educators are added. It reduces the marginal savings when educators are eliminated. This creates the incentive for the district to hire and retain more educators than otherwise may be the case. It may have a negative incentive to increase salaries. If more district resources are allocated to a higher number of educators the amount available for higher pay is reduced. Also it diminishes the gain from reductions in staffing for the purpose of increasing salaries, a common approach used by districts. The short history of the payment does not provide enough data to analyze the effects of these incentives on pay and staffing levels. The perverse incentives created by the per-educator payment to overstock educators and pay lower salaries become more severe as the payment level increases. One can see that if the per-educator payment equaled the full salary of a new teacher that from the district perspective added teachers would be free while eliminating a teacher would save nothing.

There has been no finding by the state that insufficient numbers of educators are being employed which would justify an incentive to increase that number. Quite the contrary, in national comparisons Montana's student-teacher ratios are low already and the QSIC recommendations would have generated fewer educators than currently employed.

Payments to state agencies
The per-educator payment is calculated for qualified staff at the Montana School for the Deaf and Blind, Montana Youth Challenge program in the Department of Military Affairs, and Department of Corrections programs at Pine Hills and the Riverside Youth Correction Facility. The logic of these allocations is strange – granting a subsidy to state agencies whose budgets are appropriated by the legislature and salaries covered by state pay plan appropriations. There appears to be no restriction on the use of the per-educator funds by these agencies. I have not determined how the additional funds are actually used by these agencies.

Summary
The per-educator payment generally fails to be the optimal approach for the goals set out for it. It does not efficiently meet the needs of small and isolated high schools neither as a better method of delivering state aid nor a stabilizing mechanism. It appears to provide increased aid to small elementary districts but because it operates counter to equalization and provides incentives for inefficiency it is not an optimal approach. It may increase the districts desire to retain the same number of teachers but it isn't clear that it increases the teacher's decisions to remain in a district and its affect on teacher recruitment is unclear. These payments act in opposition to equity by increasing aid most to districts that have greater resources.

Use of the per-educator as a means of distributing state aid represents an unwarranted intrusion on districts' management prerogatives. By subsidizing a district's decision to add teachers and penalizing the decision to reduce teachers it interferes with district resource allocation decisions. In spite of the penalty many districts have found it necessary to reduce staffing in response to enrollment declines.

It is a poor substitute for a true adjustment to recognize the unique problems rural and isolated schools face in hiring and retaining teachers. It does little to stabilize school funding for these schools in the face of declining enrollments. If the purpose is to stabilize funding by weakening its relationship with ANB, the per-educator payment should be replaced with approaches that more specifically target declining enrollment such as higher basic entitlements, further modification of enrollment averaging, use of the classroom unit concept or minimum fixed amounts for the smallest schools.