# Paying for Strategic Compensation Systems

## Finding Resources Beyond Teacher Incentive Allotment Funding

Three questions that often arise when school districts consider implementing or changing strategic compensation systems for educators are:

1. What will our strategic compensation system cost?
2. What resources are available to pay for our strategic compensation system?
3. How can we financially sustain our strategic compensation system over the long term, particularly if our Teacher Incentive Allotment (TIA) funding is reduced?

This brief discusses strategies for estimating the costs of strategic compensation systems and identifying the resources needed to pay for them. This brief is divided into three parts, each addressing a different critical step when determining your plan's costs and assessing funding options: 1) Estimating Costs, 2) Identifying New Sources of Revenue, and 3) Reallocating Existing Resources.

Districts should begin addressing the question of financial sustainability during their initial planning process, whether implementing a new strategic compensation system or changing an existing one. Having a good understanding of a plan's costs and how to pay for them is important for avoiding problems down the road and ensuring the success of your plan. Research and experience suggest that making changes to a compensation plan after implementation due to a funding shortfall has the effect of reducing teachers' confidence in the program and lessening the incentivizing effect of the awards. This is true whether the approach taken by a district is to reduce the amount of the award, reduce the number of eligible teachers receiving the award, or change the eligibility requirements for earning the award.

### ESTIMATING COSTS

The first step in addressing sustainability is to make a reliable estimate of the costs of your strategic compensation system. This estimate should include all new costs related to the compensation plan including the costs of salary increases or stipend payouts; the associated fringe benefit costs; and infrastructure costs such as administration, professional development and other educator supports, and any needed updates to human resources or fiscal data systems.

There are several different approaches to estimating the costs of new compensation plans. Two of these are briefly described here.

- The first is to make multiple estimates, each based on somewhat different assumptions. These may include a "best guess" estimate, a "low" estimate assuming lower than expected participation and payments, and a "high" estimate assuming higher than expected participation and payments. District leadership must then assess which estimate it is most comfortable funding. The "best guess" estimate represents the most likely cost scenario but could leave the district with a shortfall if costs turn out to be higher than planned. The "high" estimate will give a district the most cushion should costs be underestimated, but it also is the most expensive option. The "low" option is the most affordable option up front, but could leave the district significantly exposed should costs turn out to be much greater than this estimate suggested.

- A second approach is to estimate your district's maximum financial cost by identifying the maximum number of educators eligible for additional compensation under the plan and the maximum payout provided under the plan. Multiplying these variables provides a reasonable estimate of the highest possible cost to the district of the total amount of compensation under the plan. By doing this, a district knows what its maximum exposure is under the plan.

Cost estimates should be made for multiple years, generally for 3 to 5 years out. The out-year estimates should reflect expectations of how costs may change due to changes in participation numbers or in the award amounts. These estimates should be updated annually, especially early on as a district gets a better sense of participation counts and how award amounts may change over the first several years of implementation.

## IDENTIFYING NEW SOURCES OF REVENUE

Once estimates of the costs of the strategic compensation system have been developed, the next step is to determine how much additional resources, if any, are needed to pay for the plan. These are the resources necessary to cover the estimated costs of the new plan that are above and beyond the costs of your current teacher compensation system. Subtracting the cost estimate from currently available resources will provide an estimate of the amount of additional funding needed to cover the costs of your strategic compensation program for that year.

The first source of additional resources discussed here are new sources of revenues. These represent funds not currently received by the district. These may potentially come from state, local, Federal, or private sources.

### *Teacher Incentive Allotment*

The TIA was established in House Bill 3 in 2019 to recognize and reward districts' most effective teachers, particularly those working in rural or high-needs schools. Because TIA has been implemented for a couple of years now, it is not new to the districts currently participating in the program. However, many districts are still in the application and approval process or have not yet applied for TIA funding. TIA provides funding for supporting new ways of strategically compensating teachers and other educators, and for providing the best teachers the opportunity to earn meaningful pay increases based on performance. Under TIA, teachers may be designated as Recognized, Exemplary, or Master as a result of observations based on T-TESS, student growth, and other factors districts may adopt. Districts receive a minimum of $3,000 for every teacher designated as Recognized, $6,000 for teachers designated as Exemplary, and $12,000 for teachers designated as Master. Districts may earn significantly more due to their student socioeconomic level and if they have a rural designation. TIA funds must be used at the school where the designated teachers generating the funds teach. At least 90 percent of funds must be used for strategic compensation pay. Districts may retain up to 10 percent for implementation and supports. The Texas Education Agency has a tool to help make TIA revenue estimates by district on the TIA website.

### *Increases to the Foundation School Program*

Another potential state source of funding is new money from the state Foundation School Program when the per-student foundation amount is increased. For example, the state recently increased the per-student basic allotment amount by $1,020 in HB3 in 2019. If the per-student increase is sufficient compared to cost increases, districts may be able to set aside a portion of this (and future) per-student increases to help fund their strategic compensation plans.

Districts that do not already levy the allowable 17 cents of Tier Two tax effort over their maximum compressed tax rate may elect to increase their tax rate to generate additional operating revenues to support the costs of a strategic compensation plan. Districts already levying the full Tier Two allowance may want to consider reassessing how these funds are currently being used and whether reallocating some or all of these funds to support strategic compensation may be a more effective use of the funds. Denver Public Schools uses a local option levy approved by voters to pay for the additional costs of their ProComp plan.

### *Grants*

Another potential source of new revenues is grant funding from Federal, state, or private sources. For example, the U. S. Department of Education’s Teacher and School Leader competitive grant program provides 3 years of funding to support implementing or expanding performance-based compensation plans and human capital management systems. Twenty-two grant awards were made in fiscal year 2021. Currently, there is no information on when or if another round of grants will be made available. Districts may also be able to tap into private grant sources, primarily national, regional, or local foundations. Another strategy districts may use is to develop partnerships with local businesses to support part of their strategic compensation system. A major drawback to relying on grant funding is that grants from any source do not typically provide long-term, stable funding. Instead, grants should be viewed as more suited to funding shorter-term needs such as startup costs.

## REALLOCATING EXISTING RESOURCES

For many districts, the most reliable source of additional funding for supporting strategic compensation systems is reallocating resources already in use in the district. The resource reallocation process involves taking a hard look at the district’s budget to determine if there are expenditure areas where (a) things can be done more efficiently, thus saving money; (b) doing less of something that will have little or no effect on operations; or (c) something can be eliminated entirely and its resources reinvested.

This is obviously a difficult process as most, if not all, programs were originally implemented because they were viewed as meeting a need in the district. However, there is also a tendency to continue funding programs even after circumstances have changed and the original need has gone away or diminished in importance. Alternatively, a new program or strategy may do a better job of meeting the need. One approach for undertaking such a review follows these steps:

A. Review and confirm the district's current goals and priorities;
B. Assess how well programs and resources are aligned with those priorities, or whether they are no longer aligned at all;
C. For those programs that are not well-aligned or not aligned at all, determine:
    a. Are they necessary?
    b. What is the value they add?
    c. Are they mandated?
    d. Can the functions they support be provided more efficiently?
    e. Can their funding be used for other purposes?

Those programs that are not mandated but check all of the other questions' boxes may be candidates for reallocation. Several examples help to illustrate this concept.

### *Modifying Your Current Teacher Pay Plan*

The largest amount of any district's financial resources can be found in staff salaries and benefits. Teacher salaries alone represent about 60 percent or more of district spending and about 80 percent of school spending. A significant drawback with designing pay plans that add stipends to districts' existing teacher salary schedules is that the stipends must be funded entirely with new dollars—found either from new sources not currently accessed by the district or reallocated from other uses within the district. Further, research shows that the two factors that drive salary increases in a traditional teachers' salary schedule—experience and earning advanced degrees—have little effect on improving instruction or student achievement. Yet, these raises have significant costs. A 2007 study found that, on average nationally, raises from earning master's degrees cost approximately $175 per student. A study from 2011 found the total annual cost of step and lane increases in a large, urban high school district totaled $26.8 million. These studies suggest that a substantial amount of district resources is being invested in a pay system with limited strategic value.

A growing number of districts implementing strategic compensation systems have determined that the best approach, both strategically and financially, is to modify, and in some cases eliminate completely, their traditional teachers' salary schedule and use those resources to fund the components of their new strategic compensation plan. Districts modifying their existing salary schedule typically simplified it by reducing the number of experience steps and advanced degree lanes. For example, a district may reduce the number of steps from 30 to 15 and the number of lanes from six to three (i.e., bachelor's, master's, and doctorate). They often also reduce the amount of the raise built into each step and lane advancement. These cost savings are then reinvested into more strategic forms of compensation, including salary increases based on performance criteria or stipends for supporting retention or incentivizing working in hard-to-staff subject areas and schools. Districts eliminating their traditional salary schedule altogether may replace it with a career ladder schedule with advancement based on performance and/or teacher leadership roles. A limited number of experience steps may be retained within each rung of the career ladder to ensure consistent and predictable salary advancement within the career ladder. For example, the Dallas Independent School District replaced its standard teacher salary schedule with a performance-based career ladder plan consisting of five pay levels: 1) Unsatisfactory, 2) Progressing, 3) Proficient, 4) Exemplary, and 5) Master. The plan also pays stipends for recruitment, retention, and teacher leadership roles in designated "strategic" schools.

### *Savings from Improving Teacher Retention*

Building teacher retention incentives into your strategic compensation plan may not only help retain quality teachers but also help to save money. A number of studies have attempted to quantify the cost of teacher turnover. The cost drivers they note include separation costs such as time required to process paperwork, exit interviews, sick/vacation time payouts, and other forms of severance pay. There are also costs involved with hiring a replacement, including recruitment costs such as advertising, screening, and interviewing; onboarding processing costs; and new teacher induction programs and other professional development. One study also included an estimate of the cost of lost productivity from replacing an experienced teacher with an inexperienced one. Estimates from these studies ranged from around $5,200 to $35,000 per teacher depending on the size and locale of the district (e.g., rural, suburban, or urban). This estimate range does not take into consideration lost productivity. Adding estimates of lost productivity raises the cost to more than $67,000 per teacher.[1] Even if your district is on the low end of the cost range, replacing 10 teachers per year costs more than $50,000 per year—just a few thousand dollars less than the average teacher salary in Texas of $57,000 in 2021, according to the National Education Association.

### *Modifying Class Sizes*

Smaller classes are popular and research shows that very small class sizes—of 15 students or less—in kindergarten through 3rd grade are effective in improving student achievement, especially for low-income students. However, it is also a very expensive strategy, so most schools are unable to reach the 15-student threshold. There is little evidence that spending more to reduce class sizes to 18 or 20 students will have a significant effect on achievement, and there is no evidence to support very small class sizes in grades 4 through 12. Districts that are investing to reduce class sizes below 25 are likely not realizing the improvement they hoped for from their investment. On the other hand, districts may see more improvement by placing a highly effective teacher in every classroom, even those with larger class sizes. In this case, using the savings from increasing class sizes by a couple of students to recruit, develop, and retain highly effective teachers may be the better choice. For example, Guilford County Schools, a 72,000 student district in North Carolina, increased class sizes in certain math classes by one student, saving $2 million it then redirected to help fund its Teacher Incentive Fund-supported strategic pay plan. Other options for capturing savings from class size changes include targeting smaller classes in only the highest-need schools or grade levels or using flexible student grouping to reduce class sizes only for core subjects such as reading and math. However, increasing class sizes is not an easy choice as small class sizes are popular with parents and teachers. Smaller districts may also find it difficult to increase class sizes sufficiently due to the small number of students at each grade level.

[1] These cost estimates were adjusted for inflation occurring between the year of the study and 2021.

### *Considering Support Staffing*

Another potential area for savings is to consider staffing levels for support staff, such as instructional paraprofessionals in schools (excluding special education one-on-one aides, lunch room aides, or bus aides). There is little evidence that instructional paraprofessionals contribute to improving student achievement. Yet, many districts spend hundreds of thousands of dollars or more to place a paraprofessional in most elementary classrooms. Reducing the number of paraprofessionals offers another avenue for freeing up existing funding to support strategic compensation.

### *Repurposing Federal Funds*

Districts searching for additional funding to support their strategic compensation systems may also look to repurpose some portion of their existing Federal funding. A study of Teacher Incentive Fund grantees found that roughly half of the grantee districts used their Title II A or Title I A funds to help meet the program's local cost-sharing requirements.

## CONCLUSION

Strategic compensation systems offer an approach for better aligning the significant portion of district resources dedicated to educator salaries with district needs and priorities. While the TIA program was enacted to support higher pay for highly effective teachers and encourage school districts to think more strategically about educator pay, the program may not be sufficient to fully fund a comprehensive strategic compensation plan, particularly at the district scale. Even in this era of tight finances, districts still have options for finding additional resources to invest in their new pay plans. All of these options require careful analysis and difficult decisions, but the potential reward is higher quality instruction and better outcomes for all students.

## Additional Resources

For more information about finding resources needed to implement a high-quality strategic compensation system, see:

- *Sustaining Alternative Compensation Models in Education: A Summary of Research and Practice*. https://www.air.org/sites/default/files/2021-06/Sustaining-Alternative-Compensation-Models.pdf
- *Paying for and Sustaining a Performance-Based Compensation System*. https://www.ride.ri.gov/Portals/0/Uploads/Documents/Teachers-and-Administrators-Excellent-Educators/Performance-Based-Compensation/Paying-for-and-Sustaining-a-Performance-Based-Compensation-System.pdf
- Region V Comprehensive Center materials on strategic budgeting - a process that expands on and incorporates resource reallocation. https://region5compcenter.org/news-events/news/6249/strategic-budgeting-maintenance-effort-resources-and-office-hours