

# **Cost/Benefit Analysis of a Statewide Teacher Contract**

**Submitted by the Department of Administration  
Pursuant to Chapter 376 of the Public Laws of 2003 - Article 9, Section 10**

**Report Submitted to the General Assembly**

**May 12, 2004**

## OVERVIEW

**Purpose:** Included within Article 9 of the FY 2004 State Appropriation Act relating to State Education Aid was the requirement that the State Department of Administration conduct a cost/benefit analysis of a statewide teacher contract. This report attempts to provide a “cost/benefit” analysis, but is probably more useful as an informational brief on the issues which should be investigated before taking any action.

**SECTION 10.** The department of administration shall conduct a cost/benefit analysis of a statewide teacher contract. It shall report its findings to the Rhode Island general assembly by March 1, 2004.

**History of Statewide Teacher Contracts:** Only the State of Hawaii negotiates statewide contracts. In the mid 90s the State of Vermont under the leadership of Governor Howard Dean considered instituting statewide teacher negotiations but the proposal was defeated in the legislature. A number of states, mostly in the South, have a statutory minimum salary schedule. Typically, school districts within those states may choose to institute a higher scale than required by the state. It is also the case in a number of states that the amount of state school aid is directly related to teacher compensation with increases in teacher salaries driving the amount of state school aid, or state aid providing the resources to support additional compensation. The Southern states which link teacher salaries to state aid also prohibit collective bargaining by teachers. There are also many states where larger counties or regional school districts encompass many cities and towns and where the size of the district or county exceeds the size of this state both in population and landmass.

**Teacher Collective bargaining in RI:** In May of 1966 (PL 1966, Chapter 146) teachers were given the right to negotiate “...hours, salary, working conditions, and other terms of professional employment.”

**§ 28-9.3-1 Declaration of policy – Purpose.** – (a) In pursuance of the duty imposed upon it by the constitution to promote public schools and to adopt all means necessary and proper to secure to the people the advantages and opportunities of education, the general assembly declares that it recognizes teaching as a profession which requires special educational qualifications and that to achieve high quality education it is indispensable that good relations exist between teaching personnel and school committees.

(b) It is declared to be the public policy of this state to accord to certified public school teachers the right to organize, to be represented, to negotiate professionally, and to bargain on a collective basis with school committees covering hours, salary, working conditions, and other terms of professional employment; provided, that nothing contained in this chapter shall be construed to accord to certified public school teachers the right to strike.

This language and much of the rest of the original Public Law entitled “Arbitration of School Teacher Disputes” remains intact today.

**Previous studies:** The FY 2001 Appropriation Act also included a provision requiring that the legislative council conduct a study relating to statewide teacher contracts in RI. We do not believe that such a study was ever completed. The following year, the RI Education Partnership prepared a detailed report on teacher health benefits. That Report will be used as a resource for this study.

**Resources:** The Department of Administration has not typically conducted studies of this type where the focus of the results and recommendations would not directly affect operations of state government. Nevertheless, in compliance with the requirements of the Act, the Department has made a best effort to marshal its resources to conduct the research necessary to provide a useful product. Participating in preparation of the Report were the Office’s of Budget, Strategic Planning, Statewide Planning, Municipal Affairs, and Labor Relations.

For purposes of evaluating the statewide aspect of teacher collective bargaining in other states, the department relied on internet searches relating to teacher collective bargaining, State Education Agency (SEA) reports, and publications of the Education Commission of the States (ECS). The primary resource for evaluating collective bargaining in this state was the Rhode Island Association of School Committees (RIASC) database which includes a tabulated database on a variety of collective bargaining results by school district. The Association also maintains an on-line depository of every teacher contract in the state. As mentioned earlier, the department also reviewed the RI Education Partnership’s 2002 Mercer study on teacher health benefits.

**Assumptions and Data:** The RIASC data provides a good foundation for evaluating what assumptions should be made in analyzing a statewide teacher contract. The following is a list of some of the data collected by RIASC which will be critical to analyzing the financial implications of a statewide contract. Some of the data provided by RIASC was based upon information collected by the RI Department of Education.

- **Salary Scale** – Most school districts have a 10-step salary scale with the top step being achieved after 10 years of service. Five districts have an 11-step scale and another a twelve-step scale. There are variations in the number of teachers in each district at the top step. Later in this report, we will estimate the costs of a statewide contract assuming both a statewide contract based upon the highest and lowest top step. See Table 1.
- **Increments for Advanced degrees** – There are a wide range of increment schedules. Later, this report will estimate the statewide value of those increments. See Table 2.
- **Percent of Teachers at top step** – This data will help us compute the statewide cost of a unified teacher contract based upon salary scale information. See Table 1.
- **Longevity** – A variety of longevity provisions are offered by districts to teachers. See Table 2.

- **Social Security** – 24 of the 36 school districts in the state do not participate in social security (Medicare participation is required for all teachers hired after 1987). However, three of the four largest districts (Providence, Pawtucket, and Warwick) do participate. As discussed later, adjusting for social security participation would be difficult to integrate into a statewide contract. See Table 4.
- **Health Insurance Co-Pays** - Twelve of the thirty-six districts have no sharing of medical insurance costs. Another six have just a family deductible under the Blue Cross Classic plan. The remainder have employee participation ranging from 3% to 20% of cost. In many cases, the employee participation only applies to newer employees. This report will attempt to value and equalize the value of employee participation. See Table 3.
- **Number of Teachers and Enrollment** - Once we have equalized costs per district with a common salary scale, we will evaluate teacher labor costs per student. See Table 5.
- **Expenditures** - This data and more detailed data provided by RIDE will provide a foundation for equalizing teacher labor costs. See Table 5.

We also assume that a statewide teacher contract would be applicable to all teacher employees. Another possible scenario might involve a master contract specifying minimums (or maximums) relating to many factors but where each district could negotiate special provisions for their teachers. The State's Office of Labor Relations has also suggested a scenario under which the state would negotiate compensation and benefits but where each school district would continue to negotiate working conditions. This study assumes that a statewide contract would be applicable to both working conditions and compensation.

### I. Direct Salary Costs of a Statewide Contract

Table 1 records the first and top step for each district during school year 2002-2003, as well as the number of steps, teachers, and percentage at the top step. Based on this data, total direct salary without benefits (and not considering higher degree increments) is projected for each district. RISCA data relating to salary scale in school year 2003 and number and percentage of teachers at top step in school year 2004 was used for this projection. In several instances, data on the number of teachers was not available for school year 2004 and 2003 data was substituted. We also assumed for this projection that teachers not at the top step are paid on average at the midpoint between first and top step. Based upon these weighting factors, the median average salary ranges from \$56,215 in Westerly to \$48,005 in Chariho.

This study assumes that it would be an objective of a statewide contract to provide an equivalent salary schedule for all teachers. This assumption should not preclude the possibility that state decision-makers might conclude that a higher schedule was necessary for certain districts and pursue that objective in negotiations. In any conversion to a statewide schedule, a judgement would have to be made as to what would be the basis for compensation in the initial year. Table 1 also computes what the statewide (and by district) cost would be under three scenarios.

- If the highest adjusted scale was used for all teachers in the state.
- If the lowest adjusted scale was used for all teachers in the state.
- If the scale was set at the median for all teachers in the state.

<b>Assumption</b>	<b>Statewide \$</b>	<b>% Over Current</b>
Computed Direct Salaries 2003	\$730.0 Million	
Adjusted to the Highest Scale	\$779.8 Million	6.8%
Additional Statewide Cost	\$ 49.8 Million	
Adjusted to the Lowest Scale	\$665.9 Million	-8.8%
Additional Statewide Savings	-\$ 64.1 Million	
Adjusted to the Median	\$727.8 Million	

## **II. Increments for Longevity and Advanced Degrees**

There is a wide variation in increments paid by RI school districts for advanced degrees and longevity. We were not able to gather this information for all school districts; however, we were able to acquire information on 32 of 36 school districts relating to advanced degrees and 28 of 36 districts for longevity. This information is provided in Table 2 and is based upon information collected by RIASC. Projections of the number of teachers qualifying for longevity were based upon the annual teachers actuarial study conducted by the State Retirement System actuary.

**Advanced degrees:** Most school districts pay annual increments for five levels of postgraduate work. Those categories are bachelor’s degree plus 30 hours, Masters degree, Masters degree plus 30 hours, CAGS (Certificate of Advanced Graduate Studies), and Ph.D. Information supplied by RIDE indicates that close to 50% of teachers qualify for the Masters increment and 35% for the Masters plus 30 hours. The following table summarizes the assumptions in projecting increased or reduced costs relating to advanced degree compensation.

<b>Increment</b>	<b>Masters Degree</b>	<b>Masters + 30 Longevity</b>	<b>Combined</b>
High – Excluding Outliers	\$3,000	\$4,641	\$ 3,821
Low – Excluding Outliers	1,885	2,139	2,012
Median	2,546	3,265	2,906
% Applicable	15%	35%	50%
Teachers			13,700
Increased Increment			915
Annual Cost			6,267,750
Decreased Increment			(894)
Annual Savings			(6,120,475)

To summarize, if a statewide contract raised advanced degree compensation to the high end of the scale currently paid, additional statewide costs of \$6.3 million are projected. Alternatively, if a statewide contract reduced advanced degree compensation to the low end of the scale, statewide costs are projected to decline by \$6.1 million.

**Longevity:** Most school districts also pay longevity based upon years of service. Some districts begin paying longevity as early as 11 years of service. Most begin modest longevity at 15 years with more significant payments at 20 and 25 years. A few pay an additional amount at 30 or 35 years of service. Statewide information from the state’s actuary indicates that 24% of the state’s teachers have 20 or more years of service and 18% have 25 or more years. The following table summarizes the assumptions and calculations in projecting increased or reduced costs relating to differentials in longevity payments.

<b>Longevity</b>	<b>20 to 24 Years</b>	<b>25 + Years</b>	<b>Combined</b>
High	\$2,600	\$3,100	\$ 2,850
Low	500	900	700
Median	1,200	1,430	1,315
% Applicable Teachers	0.24	0.18	0.21
High Longevity			1,535
Increase Amount			4,416,195
Low Longevity			(615)
Decreased Amount			(1,769,355)

To summarize, if a statewide contract raised longevity to the high end of the scale currently paid, additional statewide costs of \$4.4 million are projected. Alternatively, if a statewide contract reduced longevity compensation to the low end of the scale, statewide costs are projected to decline by \$1.8 million.

### **III. Health Insurance – Cost and Employee Participation**

There are two separate issues which need to be considered relating to a statewide teacher contract and health benefits. The first relates to the type of plan offered to teachers and the second relates to employee financial participation in paying for the plan.

**Type of Plan:** In early 2003, the RI Education partnership released a report prepared by the William Mercer Company which explored the possibility and potential savings resulting from the creation of a “Statewide Health Care Trust for School Districts.” A positive conclusion in the report was that “...plan designs by school district are fairly consistent by plan type. This is a plus when attempting to create a statewide trust with consistent plan designs.”

The Report's substantive recommendations were:

- Consider establishing a statewide trust or,
- Becoming part of the state employee plan.
- Meet with Pharma Care to negotiate better drug program pricing.
- Quantify the unfunded liabilities of "Promises made" for pension and health care benefits.
- Identify the impact of school districts being part of the town or cities health care program.

The authors of the report were clearly disappointed by the lack of interest in this subject by Superintendents, School Committee members and even teachers. They were especially disappointed by the AFT's decision not to participate in the study. Despite similar plan design, they were surprised at the wide range of premiums among the 22 districts they evaluated.

Savings attributable to a trust could materialize from:

- Standardizing benefits
- Carving out benefits for mental health, prescription drugs, and disease management. The consultants indicate that it is their experience that this is difficult to do if Blue Cross is the benefits administrator.
- Select high performance specialist networks.

Cost saving estimates for 21 districts (we chose to exclude the data from one district) studied ranged from \$8.7 million to \$21.6 million depending partly on whether Blue Cross could be eliminated as the provider. The total premiums (excluding municipal employee participation) for the 21 districts were \$100 million and included non-teacher costs (non-teachers employed by the school districts).

The quality of the data available on district spending for health insurance was extremely limited. Information collected by RIDE on an annual basis was not consistent. There were also obvious errors in the data collected by Mercer for the Partnership study. Relying on the Mercer study information (and excluding erroneous Cranston information), the median cost of health insurance per contract in 2002 was \$7,784. Based on 13,781 teachers statewide, this would translate to statewide costs of \$112.6 million in FY 2002 and \$125 million in FY 2003 (see Table 3) assuming an 11 % increase in premiums. The 11 % increase is based upon state employee health insurance premium increases for that interval (although actual claims increased by over 13%). In projecting the cost for districts which did not participate in the Mercer survey, it is assumed that the statewide median cost of \$7,784 adjusted upward by 11% applies in each case.

As indicated earlier, the Mercer Report noted that the plan designs among school districts were similar. The designs are also similar to the state employee design except for the retention of Blue Cross Classic by some school districts. Based upon the available data or expertise in DOA, it has not been possible to calculate the cost differential of the different plans offered. Referring to FY 2003 (which is the base year for other comparisons in this report), we have estimated that the cost of teacher health care was approximately \$125 million. Therefore, each 1-% savings through reduced benefit costs translates to \$1.25 million annually. The Mercer Report suggests that

savings of at least 8% (\$8 million on a \$100 million in premiums from their sample) are possible from current levels based upon their recommendations. Applying this minimal savings rate to our estimated premiums for teachers of \$125 million in FY 2003 for all districts would yield statewide district savings of \$10 million.

**Employee financial participation:** There is a wide range of financial participation in health care costs by teachers in school districts. In both Jamestown and Woonsocket teachers contribute 20% of the premium cost. In 12 districts there is no employee participation. In another 6 there is no direct sharing although the Blue Cross Classic indemnity plan is subject to an annual deductible.

Of the \$125.0 million projected premium cost in FY 2003, we interpreted that just \$3.2 million or 2.6% was to be paid by teacher employees. In tandem with our previous sections, elimination of sharing for all employees in a statewide contract would cost \$3.2 million in FY 2003 dollars. Increasing sharing for all teachers to 20% (the highest sharing ratio statewide) would increase employee contributions to \$25 million (20% of \$125 Million) and reduce employer costs by \$21.8 million from current levels. These calculations and other health benefit information are reported in Table 3. We assumed that non-reporting districts have a per teacher health care cost equal to the district median of those reporting. Those districts which apply cost sharing only to new teachers are assumed to apply sharing to only 10 % of their teachers.

**Future Burdens to Consider:** It is likely that the future will bring additional funding requirements for governments relating to “other post employment benefits” (OPEB). The Governmental Accounting Standards Board will adopt standards for the reporting of unfunded liabilities associated with these retirement benefits, which to date have not been addressed in governmental financial statements. The largest of these is medical insurance benefits. When this standard is adopted, governments will essentially be required to fund these future benefits in a manner similar to pension benefits, which will result in the creation of an actuarially based trust fund. The costs will be significant in establishing 36 individual actuarially based trust funds, and development of asset allocation policies and strategies for investment purposes based upon asset /liability studies. There could be economies of scale in managing these individual units as part of a larger system, similar to the Municipal Retirement System. Obviously, standardization of the retiree benefits would make this combined system even easier to manage, but there other non-teacher units to be considered for OPEB purposes.

#### **IV. Adjusting for Social Security Participation**

Only 12 of the 36 school districts in the state participate in Social Security; however most of those who do participate are larger school districts like Providence, Pawtucket, and Warwick. Based upon School Committee Association data, 7,185 teachers do not participate and 6,686 do. Section 218 of the Social Security Act authorized government entities with a qualifying retirement system to choose not to participate. Selections by majority vote were made in the early 1950’s. Since 1987, all new employees have been required to participate in Medicare.

Full social security participation requires matching employee and employer contributions of 7.65% of compensation on income of up to \$87,900 per year. The social security component is 6.2% and the Medicare component 1.45%. This dollar limit is indexed upward each year. As

presented in Table 4 and based upon RIASC participation data, the projected employer cost of social security for those districts which do not participate based upon an average contribution for all teachers of 7% (these districts are already contributing 1.45% for teachers hired after 1987) would be \$26.4 million. The projected cost for those who already do participate is \$24.7 million.

As is demonstrated in Table 4 there is a very substantial additional cost to school districts which do participate in Social Security. It is our qualified judgement based upon a review of social security administration regulations that the provisions of the Section 218 agreement would take precedence over any statewide contract. That is, teachers in participating districts would continue to participate and teachers in non-participating districts would remain non-participants irrespective of what was agreed to in collective bargaining. Thus, there would be no achievable savings or costs as a result of a statewide contract. If teachers became state employees, the determination might be different. There could also be arguments on behalf of teachers that a single salary scale would not equivalently compensate teachers in participating versus non-participating districts.

## **V. Per Student Teaching Costs**

It has not been possible to collect comprehensive and comparable information from all school districts in order to compute per student teaching costs. The lack of data availability relating to increments and longevity and the cost of health care have already been discussed. Other areas where there is a lack of complete information include other benefits such as life insurance and retiree health costs as well as in other direct compensation payments such as supplemental payments for coaching or acting as an advisor.

The highest quality data relates to pay scale and the number of teachers at the top of the scale, employee participation in health care, and Social Security participation. Each of these data elements is material to total educational teaching costs and the estimated accumulated costs of these three elements would be our best proxy for comparing the relative teaching costs in each school district. Table 5 records the results for each district based upon RIASC data and InSite data for enrollment using Average Daily Membership for school year 2002. We have defined these costs as Net Designated Teacher Costs (NDTC). NDTC should not be confused with more general per student costs which would include other personnel costs as well as operating costs. It is significant that there is a wide variation in direct per student teacher costs between districts and much of this differential is not explained by the salary scale. Rather, as Table 5 shows, there are also wide variations in student teacher ratios which are a more significant driver of per student NDTC than the cost per teacher. There are a number of explanations for this which could include differences in class size limitations between teacher contracts as well as a different level of commitment to special education (lower student teacher ratios) either by contract or district commitment. Social security participation is also a major factor. There may also be other explanations.

The student teacher ratios range from a low of 9 to 1 in Narragansett (Block Island has been excluded) to a high of 13 to 1 in Providence. As reported in Table 5, Net Designated Teacher costs (direct pay unadjusted for educational or longevity increments, plus social security payments, less employee health care participation) has been computed statewide at \$751.7 million. If we assume a statewide teacher contract would result in improved statewide teacher

ratios for all districts at 9 to 1, the total NDTC would be \$933.3 million or \$181.6 million more than current levels. Alternatively, if we assume a statewide teacher contract could result in higher student teacher ratios of 13 to 1 (through improved management rights or for other reasons), statewide NDTC would be reduced to \$646.2 million or over \$105 million less than current levels.

## **VI. Other Factors Not Covered in this Report**

This report focuses on evaluating those common sense components of a statewide teacher contract which would obviously be material to entering into such an agreement. We limited ourselves to areas where there is satisfactory data available to make some preliminary judgement as to the weight of a factor in increasing or reducing statewide teaching costs. There are other factors which may not be obvious cost items which should have been included in this report.

The Report does not address the administrative or management side of a statewide contract. Issues which would have to be addressed include the negotiation of work rules and other direct non-monetary issues. It is possible that indirect savings could occur in labor relations costs such as grievances if there was a shift towards a centralized contract.

There are also cost items we were aware of for which there is insufficient data. Those factors are summarized below. The first five items are judged to be most significant. It should also be noted that several of these items are the subject of statute and regulation as well as collective bargaining and thus are controlled by a number of variables.

- General management rights relating to assignment of personnel.
- Class size including definitional language relating to assignments.
- Special class size requirements for special education.
- Itinerant teaching contractual requirements.
- Post retirement employee benefits.
  
- Length of School day.
- Length of school year.
- Paid and unpaid leaves.
- Sabbaticals.
- Sick leave provisions.
- Substitute pay.
- Tuition reimbursement.
- Life Insurance.
- Workers Compensation.
- Dental Insurance.

### **Implementation**

Collective bargaining agreements with teachers are currently negotiated between 36 separate School Committees and two teacher unions each represented by a local. School Committees employ their own staff usually relying on a labor lawyer as chief negotiator. Others on the

School Committee permanent team include the Superintendent of Schools, the School Business Officer, and Director of Personnel. The direct involvement of School Committee members varies from district to district. The teachers are typically represented by a business agent from their state affiliate as chief negotiator along with the President of their local and other teachers who have been selected to the negotiating team by the membership. Contracts are typically for three years and under state law may not exceed three years.

From a cost/benefit point of view, there are clearly savings to be achieved by no longer requiring 36 different negotiating units and the costs associated with those units. From a practical point of view, there are great challenges in integrating those 36 agreements into one new agreement. Challenges would apply to both management and labor.

Given the three-year rule on current contracts, full implementation could not be achieved until at least three years after passage of an authorizing Act. Assuming the State Department of Education or Administration was given authority to represent the State, extensive information sharing would be necessary between school districts and the state before initiating negotiating efforts. Although negotiating and labor relations savings might be achieved by districts, the State would be required to make substantial resources available to effectively manage the negotiating process and respond to on-going labor relations issues such as grievances. Likewise, each local union would need to share information with their state representatives on the nature and details of their current agreement. An additional challenge would face the unions and drafters of an authorizing statute in determining how the National Education Association and American Federation of Teachers would integrate their negotiating efforts and even whether two unions would continue to exist.

### **Summary and Conclusions**

This report was prepared in response to a legislative request to the Department of Administration included in the 2004 Appropriations Act that “The department of administration shall conduct a cost/benefit analysis of a statewide teacher contract. It shall report its findings to the Rhode Island general assembly by March 1, 2004.” The focus of the report was to identify the range of costs and benefits that would be incurred with a statewide contract under the assumption that statewide costs would fall somewhere within a range determined by the parameters of the current range of costs incurred by each school district. The following table summarizes that range of potential costs or savings for six identified drivers of teacher spending. Although we have included cumulative costs or savings, it must be understood that each cost or savings item is not mutually exclusive, and total savings or costs would be lower than the additive amount.

In Millions of Dollars

	<b>Current</b>	<b>High</b>	<b>Low</b>	<b>Potential Savings</b>	<b>Potential Costs</b>
Direct Salary - Scale	\$730.0	\$779.8	\$665.9	\$ 64.1	\$ 49.8
Direct Salary - Longevity	3.8	8.2	20.	1.8	4.4
Direct Salary - Degrees	19.9	26.2	13.8	6.1	6.3
Health Care – Statewide	125.0	125.0	115.0	10.0	-
Health Care - Employee Share	121.8	125.0	100.0	21.8	3.2
Social Security	24.7	21.1	-	24.7	26.4
Student Teacher Ratio	751.7	933.3	646.2	105.5	181.6
<b>Total Savings or Costs</b>				\$234.0	\$271.7

As indicated in the previous section, there are many other drivers of teacher spending for which there was insufficient data to make any kind of estimate relating to potential costs and savings. It should also be noted that the Department did not exhaustively evaluate the quality of the data which was used in the Report.

In summary, we identified six drivers of teacher spending in this state which are at least partially related to collective bargaining agreements between teachers and school committees. We then made an effort to cost out the implications of a statewide contract which either provided the highest (non-outlier) local district cost structure to all teachers in the state and the lowest local district cost structure to all teachers in the state. We made no attempt to quantify the costs or benefits or the quality of education from moving to the high or low-end option.

Under the highest cost scenario, maximum additional statewide costs in 2003 dollars were projected at almost \$272 million or 17% more than current unrestricted spending of \$1.6 billion. Under the lowest cost scenario, potential savings of \$233.7 million were identified or almost 14% of total spending.

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