Education Commission of the States

The Joyce Foundation

ISSUE PAPER

JUNE 2007

Funding Diversified Teacher Compensation Systems

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The first paper in a series of four

Introduction to the Project

Changing the way teachers are paid to include outcomes, such as student performance, or incentives for teaching in at-risk schools is gaining support in districts and states across the country. The policy process for moving away from the traditional compensation structure is a complex one, however. As is true in all sound policymaking, those designing and seeking to implement **diversified teacher pay systems** would benefit from reviewing what has been learned by both the research and policymaking communities in order to design programs with a better chance at succeeding. With the generous support of the Joyce Foundation, the Education Commission of the States has created a series of resources to provide policymakers and leaders with information on redesigned compensation systems. The resources include:

- An issue site on the ECS Web site with current resources
- A redesigned teacher compensation database with information on state-, district- and local-level redesigned compensation programs
- A series of four issue papers:
  - Funding Issues in Diversified Teacher Compensation Systems
  - Teacher Evaluation in Diversified Teacher Compensation Systems
  - Student Performance Assessment in Diversified Teacher Compensation Systems
  - The Use of Diversified Compensation Systems to Address Equitable Teacher Distribution.

We hope these resources are of value and relevance to policymakers and practitioners who are considering redesigning teacher compensation systems in their states, districts and schools.

Table of Contents

Note: all URLs in this paper are live links.

The Education Commission of the States is a nationwide, nonprofit organization that helps state leaders shape education policy.

Document No. TQ-07-01.

INTRODUCTION TO DIVERSIFIED TEACHER COMPENSATION

Teacher quality is one of the greatest determinants of student achievement. It follows, therefore, that ensuring all students are taught by quality teachers is a priority, one that has been the subject of increasing focus with the passage of the No Child Left Behind Act in 2001 and its emphasis on establishing a minimum standard for highly qualified teachers and accountability for student performance. One of the ways in which policymakers are attempting to improve teacher quality and ensure all students are taught by a high-quality teacher is through changes in the system by which teachers are compensated.

Attempts to move teacher compensation systems away from the single salary schedule in which teachers are compensated based on years of service and educational attainment to one more reflective of teacher performance are not new. Earlier attempts at diversification fell into two basic categories: experimental merit pay and career-ladder systems; neither enjoyed uniform success.[1]

Experimental merit pay systems were limited in several ways. First, they tended to rely solely on subjective evaluation of the teacher by a school administrator as the means of determining bonus distribution. Additionally, these were zero-sum systems, meaning the number and amount of bonuses were limited by the lump sum given to a school for this purpose. These limitations contributed to the claim these systems created competition among teachers. Moreover, these programs showed no evidence they improved overall teacher quality or student success.[2]

Career-ladder systems were also tried as an attempt to eliminate the flat career structure of the teaching profession. These systems provided additional salary and advancement opportunities for teachers who assumed additional roles such as mentoring and administrative responsibilities. While these programs showed promise through some improvement in student achievement, many programs were not able to obtain sustainable funding. However, certain aspects of career-ladder systems exist today within diversified teacher compensation programs. For a more complete discussion of teacher compensation reform efforts please see the ECS issue paper, *Diversifying Teacher Compensation* available at: **http://www.ecs.org/clearinghouse/65/83/6583.pdf**.

Modern reform attempts are more sophisticated in their design and tend to include multiple methods of evaluation, rewards for taking on leadership roles and links to outcome-based assessment such as student performance. Many programs also reflect the goals of the schools, districts and states by offering focused incentives to address high-need or challenging areas. Further, it is important to note that these programs are likely to be most effective as part of a larger system of teacher support.

This is the first in a series of four issue papers that highlight and discuss various aspects of diversified teacher compensation systems.

The four papers in the series are:

- *Funding Diversified Teacher Compensation Systems* (**http://www.ecs.org/clearinghouse/74/75/7475.pdf**)
- *Teacher Evaluation in Diversified Teacher Compensation Systems* (**http://www.ecs.org/clearinghouse/74/78/7478.pdf**)
- *Student Performance Assessment in Diversified Teacher Compensation Systems* (**http://www.ecs.org/clearinghouse/74/76/7476.pdf**)
- *The Use of Diversified Compensation Systems to Address Equitable Teacher Distribution* (**http://www.ecs.org/clearinghouse/74/77/7477.pdf**)

These issue papers were created with the generous support of the Joyce Foundation as part of a larger project on redesigned teacher compensation systems. Other resources produced through this project include an issue site on teacher compensation (available through the ECS Education Issues site) and a database containing information on state-, district- and local-level diversified compensation systems (available at: **http://www.ecs.org/html/t_comp.htm**).

FUNDING DIVERSIFIED TEACHER COMPENSATION SYSTEMS OVERVIEW

The monetary nature of teacher compensation diversification makes funding the heart of any system, regardless of its specific design. Improper planning and unsustainable funding can be the undoing of even the best program. Policymakers must complement their identification of new program goals, purpose and design with a comprehensive cost estimate and a reliable plan for adequate funding.

Past attempts at implementing diversified teacher compensation programs reveal various costs associated with a successful program that may not directly align with traditional salary budgets.[3] Costs may vary depending on the type of program and level of reform being implemented. These factors in turn may impact the variables in cost at different phases of the transition to a new system. The source of funding used when preparing for transition to a new compensation system, or when adding on to an existing program, can also prove to be fundamental in maintaining a stable and reliable system.

FINANCING COMPENSATION REFORM

- ✶ What are new cost areas?
- ✶ Which cost areas will likely grow over time?
- ✶ Which cost areas will provide only temporary spikes?
- ✶ How much will it cost if all of the participants make all of their goals?
- ✶ Where will the money come from?
- ✶ Is the funding source adequate for the size and duration of the cost?

New compensation programs have incorporated a variety of funding combinations from local taxes, state aid through appropriations, philanthropic grants and federal money.

When forecasting cost and funding, it is important to consider the constraints on each type of funding source and how they may be coordinated to provide adequate support and a measure of flexibility throughout the various steps of implementation. The experiences of participants in existing diversified compensation programs at both the state and district levels have shed light on important considerations for financial planning prior to implementation.

PLANNING FOR THE COST OF DIVERSIFIED TEACHER COMPENSATION

The transition to a diversified teacher compensation program with an incentive pay component may require resources for a variety of needs in planning, developing, implementing and sustaining the new program. A primary recommendation made by the Community Training and Assistance Center (CTAC) in its final report on the Denver Pay for Performance Pilot is to "project the costs of changing internal practices and requirements" to account for the "direct financial costs to implementing Pay for Performance system wide."[4] Although funding from traditional compensation sources may be available, "states and districts are finding that sustainable programs are not cost neutral."[5] In order to enhance the success and sustainability of a new incentive pay plan, policymakers must consider the intensity of reform, the level of participation and initial start-up costs as well as ongoing operational costs.

The level and nature of reforms being undertaken in the redesign of teacher compensation are defining elements in the projection of short-term and long-term expenses. According to Douglas Rose and John Myers, school funding consultants, the proposed complexity of change from the original salary schedule will impact the complexity of the cost estimate involved. Rose and Myers refer to a spectrum of complexity ranging from the simplest change of adding bonus awards for new behavior to existing systems, to the more complex change of fully replacing the old system.[6] There may be varying levels of change along the spectrum including, but not limited to: salary awards versus bonus rewards and incorporating rewards for recurring events as opposed to one-time events. Some other program elements to consider in cost estimates include the calculation of rewards as flat amounts or as a percentage of salary and the possible differences in cost between group rewards and individual rewards.

Experiences with financing state-level programs in Florida and North Carolina have shown that funding may need to be readjusted or supplemented over time to meet payout commitments when they exceed original program budget projections.[7] In the case of North Carolina, the program's budget grew from $75 million to $125 million after the first two years.[8] An alternative approach to funding incentive-pay programs is to allot a specific amount to be awarded as incentive pay at a prorated basis or until the funds are exhausted, decreasing the possibility of exceeding budgeted monies. Critics of this "fixed-pot" approach claim that limited access to rewards can undermine staff cooperation and collegiality.[9] Furthermore, fixed-pot monies may be compatible with certain short-term or simpler programs, but more complex and sustained reform may require more continuous and reliable funding for long-term operations.

Programs taking a more comprehensive approach may provide for long-term professional gains as opposed to occasional bonuses. The designers of the **Denver ProComp System** aimed to create a program that "could be sustained across education careers."[10] To this end, they employed a financial analyst to create their 50-year financial model to ensure that "teachers could count on career earning expectations and not just pick up an extra bonus or two now and then."[11] In the ProComp model individual teachers can earn a variety of rewards incorporating both salary increases and bonuses. If the program is successful and incentives encourage the recruitment and retention of increasingly highly qualified and highly effective teachers, it stands to reason that success may garner associated costs. It is important for policymakers to consider the amount of new behavior they can afford to finance.[12] The type, amount and duration of financial incentives will influence the potential liability of all participants winning the maximum award.[13] Past experience implementing diversified teacher compensation has revealed that a failure to follow through on incentive award commitments can seriously undermine both the effectiveness of and support for compensation reforms.[14] Therefore, cost estimates for a redesign should consider the number of eligible employees and project the cost of maximum possible success with all employees reaching their goals.[15]

At the district level, financial projections should include a prediction of the number of teacher participants and the level of behavior change in participating schools. These concerns also apply to state-level planning, but are expanded to include consideration of the number of district participants and when they will participate.[16] The **Minnesota Q Comp** design addresses such concerns by implementing a phased-in program to which districts or schools must apply for program participation. Funding begins in the second year of program acceptance, allowing the need for state funds to be calculated in time to request a supplemental budget appropriation if the demand exceeds the funding available.[17] Under this system, Q Comp administrators can control for the number of schools entering the program and enjoy a grace period for determining actual cost in order to ensure adequate funding. While this measure provides for enhanced reliability of funding, it is important to note that periodic appropriations approved through legislative action may be less reliable than more institutionalized sources of funding.

When considering the variables in cost at the state level versus those at the local level, another element that may impact state and district financial liability is the formula by which state funds are distributed to districts and schools. According to the National Governor's Association, Florida had to add an additional $20 million in appropriations to supplement the original budgeted amount of $60 million to meet the school recognition program goal of $100 for each unweighted full-time employee.[18] The design of both Minnesota's Q Comp and **Arizona's Classroom Site Fund** incorporate the provision of state aid funding on a per-student basis, as opposed to the number of eligible employees or their rates of success (see p.13 for an overview of the Arizona Classroom Site Fund). These two programs, therefore, allow the states to more clearly predict annual payouts while the districts and schools must account for fluctuations in program success rates and coordinate the distribution of funds to individual employees.

Due to the fact that districts receive funds based on their student count, the Arizona Auditor General has concluded that under the per-pupil distribution formula "teachers in districts with larger student-teacher ratios could potentially receive more monies than those with fewer students per teacher."[19] Although no research was found regarding the impact of this disparity, it may be worth considering the influence of such finance choices on state and district education goals (e.g. recruitment of teachers to understaffed schools compared to teacher perception of efforts to reduce class sizes).

STATE PROGRAM PROFILE | Minnesota Q Comp

How are Q Comp funds distributed?

- $260/student in revenues: $190/student in state aid + $70/student from partially equalized levy
- Districts and schools receive the $190 per student in state aid regardless of the amount levied for Q Comp
- Q Comp legislation provides funding for approximately 48% of students (prior year October 1 student count).

Is funding adequate for implementation?

- Q Comp implemented as a phased-in program; starts in the second year
- Advantage: need for state funds can be understood in time to request a supplemental budget appropriation if the demand exceeds the funding that is available.

Is funding source sustainable over time?

- Q Comp structured as a categorical aid program and part of general education revenue, not as a grant program
- The bill creates the categorical aid program as a permanent funding program. However, funding is always a decision of the current and future legislatures.

Program Highlights

- Charter schools with an approved Q Comp application receive the state average in aid (slightly less than $260/student) because charter schools do not have the authority to impose levies
- Stage 1 of Q Comp Application: required "Transition Planning Year" to set aside money for staff development
- Q Comp funding 2006-07 school year: approx. $75 million for basic state aid; actual expected cost is $38,910,000
- Districts may enter into four-year contract.

SOURCE:

- *Frequently Asked Questions About the Quality Compensation Program.* (Roseville, MN: Minnesota Department of Education, Accessed December 18, 2006); Available from MDE: **http://education.state.mn.us/MDE/Teacher_Support/QComp/Frequently_Asked_Questions.**
- Chas Anderson (July 2006), *Quality Compensation for Teachers or "Q-Comp": Minn. Stat. 122A.413-415*, [PowerPoint presentation online] (Presentation at the 2006 NCTAF Partners' Symposium Teaching for America's Future: Quality Teaching in High-Priority Schools, July 9-11, 2006), slide 2 of 29; Available from NCTAF: **http://www.nctaf.org/resources/events/documents/Q_Comp_2006.ppt.**

Additional Cost Areas That May Arise in Teacher Compensation Reform

In addition to the costs arising from actual pay increments, a system based on knowledge and skills, teacher performance and/or student learning gains may also require other resources and reforms, including the costs of assessment in dollars or staff time.[20] For programs that include new student or teacher assessment procedures, the development of testing tools and training may also impact implementation costs. Depending on the functionality of existing administrative and technological infrastructures, schools and districts may need to invest further in their data collection systems and other logistical requirements. According to Jeff Buck, Denver ProComp liaison to Denver Public Schools Human Resources, policymakers should identify the types of data needed to support the new pay system prior to implementation and "reform human resource's ability to collect the appropriate data."[21] Considerations for the financial projection might also include the cost of training various staff in the new behaviors and requirements of the system. Several differentiated compensation programs at the state level and district level are designed with additional elements such as professional development components and mentor/master teacher denominations that help to support teacher success in the new compensation systems.

These additional cost areas may arise as temporary needs specific to a particular phase in the development or implementation of a new program, or they may represent ongoing needs that must be incorporated into the long-term financial model of the program. The combination of the various possible costs described in this section will greatly impact possible funding options. The determination of adequate and sustainable funding will be directly linked to an assessment of the amount and duration of funding needs.

FINDING RELIABLE FUNDING: Different Sources for Different Needs

As discussed in the previous section, there are a variety of factors to consider when planning for the cost of teacher compensation reform. Equally important is the coordination of funding sources appropriate to various funding needs. States and districts have implemented a variety of funding combinations from local taxes, state aid through appropriations, philanthropic grants and federal money. Policymakers must consider the possible limitations of each type of funding source and how they may be coordinated to provide adequate support and a measure of flexibility throughout the various steps of implementation.

When sharing his lessons-learned from the Denver experience, Jeff Buck suggested that "if grant funding is available, it should be used for the development of the program, but the program should be implemented using sustainable, continuing funds as a way to design a durable program."[22] According to Alan Odden of the Consortium for Policy Research in Education, experience with implementing performance pay systems has shown it is essential to have adequate financial backing prior to program implementation.[23] Odden asserts this backing must be secured for the duration of the program's commitment, regardless of whether the obligation is for a temporary pilot or long-term operation.

The recommendations provided by research overwhelmingly stress the importance of a program's ability to ensure the reliable delivery of promised rewards. The effectiveness of financial incentives is strongly influenced by employee confidence in the system. Failure to follow through on program commitments erodes the trust and employee confidence necessary for the future success of financial incentives. This section will provide some examples of funding sources used by existing compensation programs to meet the varying financial requirements of planning and development, implementation and transition, and long-term operation costs.

Planning & Development

The new costs associated with redesigning teacher compensation may begin well before the actual implementation of the program. As teacher compensation reform becomes increasingly ambitious and more extensively tied to broader education reforms, comprehensive planning and development becomes ever more essential to effective change. Prior to the implementation of compensation redesign, states and districts have undertaken research of past experience as well as modeling of proposed innovations to test the possible results, stakeholder reception, and associated costs and glitches that may arise with specific reforms. An effective research and development phase can support the projection of associated costs arising from system-wide change, cultivate broader understanding and support for the program, and aid the development of an effective implementation strategy. However, these preliminary measures may carry their own costs that must be factored into overall financial planning. Depending on the type of program and level of prior experience to build upon, the preliminary phase of designing and planning for diversified teacher compensation may require funding for consultants, research studies, technical support and data collection, as well as possible pilot program expenses.[24]

Examples of state-level funding for experimentation and development of differentiated teacher compensation programs reveal different combinations of state appropriated funds, local tax money and federal grant money. In Arizona, the state's Classroom Site Fund requirement that all districts and schools must have performance-based pay was preceded by years of experience in smaller scale programs to learn from and draw upon. Before performance-based pay became mandatory, approximately 40% of Arizona teachers were already participating in some form of performance-based compensation system.[25] The most prominent of these early programs is the **Arizona Career Ladder Program**, initiated in 1984 and funded through state aid and a local tax. The Career Ladder Program, which meets the Classroom Site Fund performance pay requirements, is currently active in 28 districts with no plans for further expansion.

Prior to implementing the Q Comp Program, Minnesota had gained experience with alternative teacher compensation beginning in 2002 with a pilot program in five school districts incorporating alternative salary schedules and career ladders for teachers. The program was funded by an annual allocation of $3.6 million and allowed for local design.[26] In 2004, Minnesota also implemented the **Teacher Advancement Program (TAP)** at two school districts with a federal Teacher Quality Enhancement Grant.[27]

STATE PROGRAM PROFILE | Arizona Career Ladder

CAREER LADDER FUNDING UNDER ARIZONA STATE EQUALIZATION FORMULA

- At full implementation, districts may increase their base funding level by 5.5%
- Based on compliance with requirements, funding levels have progressed from 1% to 5.5% above the base support level
- All district programs are currently budgeted at the 5.5% level.

Portion paid by state aid:

- State appropriated funding derived by a formula based primarily on student count.

Portion paid by the qualifying levy (paid by local tax):

- Qualifying tax rate is increased by .11 for Career Ladder Districts
- High school or common school district tax rate based on two cents for each percentage increase in base level funding
- The unified district tax rate based on four cents for each percentage increase in base level funding.

ADDITIONAL INCENTIVE COMPONENT:

- In 1994-95, a statute revision enacted allowing all districts to participate in an additional incentive component
- Specific provisions for implementation can be found in ARS §15:918.

Note: There are no additional funds received for the Career Ladder Program and there is presently a moratorium on the Career Ladder Program. No additional districts are allowed to join this program. There are 28 districts participating in FY 2007.

SOURCE:
Arizona Career Ladder Program: Program Components (Phoenix, AZ: Arizona Department of Education, accessed December 2006); Available from ADE: **http://www.ade.state.az.us/asd/CareerLadder/CL_Components.pdf.**

Educational Philanthropy as Venture Capital

The planners of the district-level Denver ProComp system undertook a four-year pilot study in 16 Denver schools to measure teacher objective setting and student growth. This Pay for Performance Pilot was evaluated at various times, including a midterm and final report by the Community Training and Assistance Center (CTAC). The commitment to research and candid third-party evaluations of the Denver Pay for Performance Pilot was an important precursor to developing and implementing the Denver ProComp system.[28] Although the costs associated with the research, planning and pay-for-performance pilot were in many ways temporary, they were nonetheless substantial. In order to finance this endeavor, Denver obtained ongoing grant funding from several philanthropic organizations.

In *Catalyst for Change: Pay for Performance in Denver Final Report*, the CTAC describes the funding commitment made by a combination of local and national funders as "one of the rare examples of foundations applying the approach of venture capital to public education giving."[29] This model of philanthropic giving enhanced the reliability and flexibility of the funds needed for the planning, research and experimentation as funders sustained their giving throughout the pilot and supported fluctuations in cost. The report differentiates between traditional educational philanthropy, which it describes as encouraging short-term responses to grant incentives, with the venture capital approach in which funders face heightened risks but can have greater impact in instituting fundamental change.[30] The report also cites the foundations' emphasis on research, results, collaboration and leadership as being important to success of the pilot.

Implementation & Transition

Once the program design has been determined, policymakers can settle on an implementation strategy and timeline for transition. An important question to consider in this stage is whether the new program will be implemented en mass or if it will be phased-in over time.

One advantage of phasing-in program components is that different elements of the plan and/or increasing numbers of participants can be incorporated over time to build confidence and address problem areas.[31] While confidence-building in employees is important for the success of the program incentives, confidence-building in the community is important for ensuring long-term funding that may come from a local sales or property tax. Some programs, including Arizona's Career

DISTRICT PROGRAM PROFILE*

Denver ProComp

RESEARCH & DEVELOPMENT

Rose Community Foundation
- Almost $2.5 million to support the Pay for Performance Pilot and evaluative research

Broad Foundation
- $1.2 million grant to fund research and development phase of ProComp

Daniels Fund
- $500,000 grant to support pilot and related research

TRANSITION & IMPLEMENTATION

Rose Community Foundation
- $1 Million grant to help fund transition from current system to ProComp

Broad Foundation
- $620,000 grant to help fund transistion

Daniels Fund
- $500,000 grant to support pilot and related research

LONG-TERM SUSTAINABILITY

Mill Levy Override
(passed November 1, 2005)
- Local property tax provides **$25 million** (inflation adjusted) **annually**
- Funds year-to-year increases earned by those in ProComp and
- Funds the operating costs of The ProComp Trust

*The figure above provides only a partial representation of foundation support for Denver's Pay for Performance program. Since 1999, Denver has also received funding from the Denver Foundation, the Donnell-Kay Foundation, the Sturm Family Foundation, the Phillips Family Foundation and the Piton Foundation.

SOURCE:
Foundations Announce $2.12 Million in Grants for ProComp (Denver, CO: Denver Public Schools, last updated February 8, 2005, accessed December 1, 2006); Available from DPS: **http://www.denverprocomp.org/stories/storyReader$196.**

Ladder Program and Classroom Site Fund, as well as the **federal government's Teacher Incentive Fund (TIF)** grant program, require measures to encourage multi-party participation and broad support among stakeholders and/or evidence of such support before funding will be approved.

A more direct financial advantage of an incremental phase-in is that it will allow the program to adjust to new costs and to ensure the state, district or school has the financial capacity to meet obligations for promised payouts. As discussed in the previous section on cost estimates, Minnesota's Q Comp is designed to be a phased-in program. Stage one of the Q Comp application process for districts and schools includes a requirement for a "Transition Planning Year" to set aside money for staff development with the actual program beginning in the second year. At the district level, the Denver ProComp Agreement outlining the program design, requirements and elements stipulates that implementation must occur in phases, beginning with the incorporation of a limited number of program components.[32] Notably, the agreement also requires "earmarked continuing revenue" in the amount of $25 million to be available prior to implementation.[33] Denver continues to utilize foundation monies to supplement the costs of transition and implementation, including the use of a $500,000 Daniels Fund grant to support the development of the ProComp Assessment Profile. This assessment tool will be used to measure students' academic growth for teacher rewards.[34]

The design of the federal TIF grant program is aimed at supporting teacher compensation reform through the development and implementation phase. The TIF design functions as a facilitating funding source to get projects off the ground with requirements for grant rewards that implement important post-TIF sustainability measures. The cost-sharing requirements (see TIF profile on next page) encourage long-term sustainability through the gradual decrease of dependence on TIF grants used to pay differentiated compensation awards. Furthermore, applicants must provide sufficient evidence of existing support or planned strategy to gain support to ensure long-term commitment to the program by the community and teachers.

The program is specifically geared toward the development and implementation of performance-based teacher and principal compensation systems in high-needs schools to improve the quality, recruitment and retention of educators serving poor, minority and disadvantaged students. Although the program requires that TIF funds be used to directly support the development and implementation of programs in high-needs schools, the mandate provides notable flexibility to grantees in expanding the benefits of receiving TIF funds.

FEDERAL PROGRAM PROFILE | Federal Teacher Investment Fund (TIF)

Purpose

To support programs that develop and implement performance-based teacher and principal compensation systems, based primarily on increases in student achievement, in high-need schools. One of the main goals of TIF is to create sustainable performance-based compensation systems.

Eligibility

- Local educational agencies (LEAs)
- State educational agencies (SEAs)
- Partnerships of: (1) an LEA, an SEA or both; and (2) at least one nonprofit organization
- The fiscal agent for a TIF partnership may be the LEA, the SEA or the nonprofit organization.

TIF Performance and Budget Period

- Performance Period: maximum of 60 months; the applicant must specify the length of time needed to develop and implement performance-based teacher and principal compensation
- Budget Period: funded in annual segments based on review of grantee's annual progress report and the availability of sufficient appropriated funds.

Cost-Sharing Requirement

- For each year of the TIF project in which the grantee pays out earned differentiated compensation to eligible employees, the grantee must provide an increasing share of funds from sources other than the TIF grant monies
- Final year of the performance period: grantee must ensure that at least 75% of differentiated compensation costs are paid from sources other than grant funds (Note: This provision applies to the grant as a whole, not to individual schools or LEAs. Therefore, the grantee may choose to expand the project to new schools in the final year or two and use TIF funds to pay the majority of differentiated compensation in the new member schools, so long as non-grant funds are used to pay differential compensation in the original project schools.)
- Grantees not required to provide a cost share in budget periods when a differentiated compensation will not be awarded
- Grantees must begin implementing differentiated compensation systems no later than the final year of the project
- Applications must include a timeline showing when implementation of differentiated compensation will begin
- Federal funds may be used to meet the cost-sharing requirement only when differentiated educator compensation is an allowable expense in that program's statute and regulations.

How Can TIF Funds Be Used?

- To pay the costs of developing and implementing performance-based compensation systems for the benefit of teachers and principals in high-need schools
- May be used for those activities that directly support the development and implementation of the project (refer to OMB Circular A-21 for nonprofit organizations and/or A-87 for State and local governments, **http://www.whitehouse.gov/omb/circulars**)
- TIF funds may only be used to pay for the differentiated compensation for teachers and principals in high-need schools; however, once developed for the high-need schools, the products, processes or systems may be used to benefit teachers and principals in non-high-need schools within the state or district
- TIF funds may be used by applicants with existing programs to expand services in TIF priority areas
- TIF funds may be used to supplant funding in acceptable areas of an existing program: TIF does not include a "supplement, not supplant" requirement.

Program Highlights

- Requires evidence of sufficient community support and teacher "buy-in" to ensure long-term commitment to the program
- Functions as a facilitating source to get projects off the ground
- Encourages long-term sustainability: cost-sharing requires grantees to gradually decrease dependence on TIF grant monies
- Flexibility: TIF funds may be used to supplant existing monies; non-capital benefits of products, processes, systems may be implemented in non-high-need schools.

Source: ED.gov Frequently Asked Questions – Teacher Incentive Fund, **http://www.ed.gov/print/programs/teacherincentive/faq.html.**

This flexibility allowed under TIF requirements can be seen in the following measures:

- The leeway to use TIF grants to *supplant* current funding in existing programs (so long as it meets program requirements) which may ultimately free-up money from other sources to support the development of programs in non-high-need schools
- The transferability of useful products, processes and systems developed in high-need schools with the TIF funds to non-high-need schools
- The exemption of newly added schools from the cost-sharing requirement of the final performance year.

Effective implementation may require additional funds to support the program through fluctuating costs arising from systemic compensation and administrative transitions. Some possible cost areas identified in the experience of existing programs include:

- Heightened community and staff-wide communications to support understanding and confidence during transition[35]
- Strengthening system data capacity[36]
- Training necessary staff in development of new accountability systems
- Updating technology infrastructure[37]
- Reforming capacity and procedures of human resources to meet new pay system needs[38]
- Spikes in costs due to transferring employees into the new system at existing salary levels (combined cost of old and new awards).[39]

In their final report on the Denver pilot, CTAC warned that the far-reaching organizational implications of pay-for-performance require "short- and long-term projections of the financial and non-financial costs of implementation."[40] The CTAC report includes the following examples of implementation costs to consider:

Financial Costs (new fiscal expenditures)

- Salaries
- Equipment
- Additional staffing.

Non-Financial Costs (institutional costs)

- Reordering district priorities
- Functioning with higher level of interdepartmental coordination
- Operating with a greater sense of urgency
- Reallocating existing funds.

The implementation phase of instituting diversified teacher compensation may provide a few bumps as program administrators work to address both short-term spikes in cost and the phasing in of long-term program expenditures. The planned and unexpected costs that arise when implementing a new teacher compensation program will depend on the situation in which it is being implemented. Although project stakeholders may learn a great deal from research, communication and model pilots, each community, staff and administration have unique perspectives and needs. These variables may require attention and flexibility during the implementation phase as the broader system adjusts to change. The support of a well-informed and comprehensive implementation strategy will facilitate the "ability to be anticipatory and to overcome obstacles that emerge during implementation."[41]

Sustaining Long-Term Operation

While temporary grant funds may be very useful for preliminary research and development expenses, as well as for absorbing fluctuating costs in program implementation, grants do not provide the long-term reliability necessary to sustain salary increases or recurring bonus rewards. State-level reliance on periodic appropriations to finance diversified teacher compensation, while possibly more reliable than grant funding, is still vulnerable to changing political currents and competing interests. For comprehensive reform, like that in the Denver ProComp System, it is necessary to secure a continuing source of revenue to ensure long-term sustainability. This long-term operation requires the provision of a funding source that is insulated from cuts due to cyclical variations in educational resources.[42] At the district level, Denver's ProComp system is funded through a local property tax increase approved by Denver voters in November 2005. Several programs have incorporated local tax increases to support ongoing compensation costs. With community support, this type of continuing revenue can provide an important measure of sustainability.

At the state level, the Minnesota Q Comp Program combines \$190 per student in state aid with an additional \$70 per student from a local property tax levy. Minnesota allocated over \$75 million for basic state aid to the program for the 2006-07 school year, providing approximately \$190 per student. This funding is apparently permanent to the base budget so long as the district or school operates the Q Comp program. Although state legislation institutes the program as a categorical aid program and permanent funding, this source may retain a measure of insecurity as "funding is always a decision of the current and future legislatures."[43]

Arizona's Classroom Site Fund receives funding from state sales tax and growth in K-12 state trust land revenues to fund pay-for-performance programs across the state. Using an annual per-pupil rate established by the state Joint Legislative Budget Committee (JLBC), this revenue is allocated to local-level classroom site funds maintained by each district, charter school or state school.[44] Although the program is geared toward long-term continuous funding streams, there is a potential for fluctuations in revenue due to the reliance on sales tax and annual endowment earnings.

The Arizona JLBC staff determines the annual per-pupil amount for the following Classroom Site Fund budget year based on projected estimates of sales tax revenues, endowment earnings, unspent amounts from the previous year and student counts.[45] If the actual revenue during the budget year varies from these projections, the monthly payments made to schools may be lower than anticipated. When there are insufficient funds in the Classroom Site Fund to fulfill the estimated per-pupil allocations, districts and schools receive proportionately reduced distributions. The state is not required to cover lower than estimated Classroom Site Fund payments.[46] School district administrators faced with insufficient funding for classroom site fund programs may issue "warrants" – short-term loans from commercial banks – which the districts are responsible for paying back with interest the following year.[47]

Appropriate and protected long-term funding is key to a program's overall success. In addition to the availability of funds, policymakers should consider measures to avoid the misuse of teacher compensation monies. The nature of funding integration can impact a program's sustainability, as "funding that is integrated within the school finance structure is less likely to be vulnerable to cuts than a separate funding pool."[48] Several programs have implemented institutional or legal protections for compensation funds once they are collected. In Denver, the local tax funds are deposited in the ProComp Trust. This trust is administered by a trust board and protected with a comprehensive trust agreement outlining proper usage, analysis and protection of the compensation monies. Arizona legislation protects the use of Classroom Site Fund resources by stipulating that these monies must "supplement, not supplant" teacher compensation funds from other sources.[49] Furthermore, district spending of the Classroom Site Fund revenue is confined to the following formula:

- 20% for teacher base salary increases and employment related expenses
- 40% for performance pay increases for teachers
- 40% for limited school-chosen purposes (e.g., class size reduction; teacher compensation increases; AIMS intervention programs; teacher development; dropout prevention programs; teacher liability insurance premiums; or a combination of these initiatives).

Practicality & Perception: the Dual Role of a Solid and Protected Funding Structure

Securing a protected funding source against misappropriation or reallocation of monies designated for teacher compensation is an important element in assuring the viability of these programs. This has dual significance – as both a pragmatic sustainability measure and as an assurance to participating teachers that they will be awarded the sums they were promised. This psychological dynamic is critically important for program success because a lack of trust and low confidence in the program will result in limited "impact of incentive on behavior."[50] Consequently, communication and transparency regarding funding issues as well as educating teachers and the public about the nature of the program and its goals will support the successful implementation of teacher compensation reforms.

STATE PROGRAM PROFILE | Arizona Classroom Site Fund

The Classroom Site Fund (CSF) was established by the voter-approved Proposition 301 (November 2000 General Election).

WHERE DOES THE MONEY COME FROM?

- A portion of the Proposition 301 state sales tax (0.6% increase for 20 years to fund educational programs)
- Growth in K-12 state trust land revenues.

HOW ARE CSF MONIES DISTRIBUTED TO SCHOOL DISTRICTS AND CHARTER SCHOOLS?

- State CSF funds are distributed to local level classroom site funds maintained by each district and charter school
- Local CSFs are budgetary controlled accounts
- The budget limit for each local CSF is the sum of the following:
  - Annual per-pupil distribution from the Arizona CSF
  - Unexpended budget balance from the local CSF for the previous fiscal year
  - Net interest earned on monies in the local CSF during the prior fiscal year
- Estimated per pupil amount for each budget year is based on the estimated resources in the CSF for the budget year and the estimated "weighted" student count for the current year
- Any lowering of CSF revenues reduces per pupil allocations out of the fund. The state is not required to cover lower than estimated CSF revenues.

HOW DO DISTRICTS SPEND CLASSROOM SITE FUND MONIES?

- District spending of the CSF is confined to the following formula:
  - 20% for teacher base salary increases and employment related expenses
  - 40% for performance pay increases for teachers
  - 40% "menu monies," for six specified purposes (class size reduction; teacher compensation increases; AIMS intervention programs; teacher development; dropout prevention programs; teacher liability insurance premiums; or a combination of these initiatives)
- Since FY 2004, menu monies directed toward class size reduction, AIMS intervention and dropout prevention must be spent only on instruction, and cannot be spent for athletics.

PROGRAM HIGHLIGHTS

- CSF spending must be used to supplement, not supplant, teacher compensation monies from any other sources
- In FY 2005 districts spent more than $250 million from their Classroom Site Funds; 93.5 %, was used for instruction purposes, such as paying teacher salaries and benefits
- In FY 2005, the amounts of teacher salary increases attributable to Proposition 301 monies ranged from $486 to $7,904 per eligible employee, on average
- FY 2007 projections estimate $406,550,500 in available CSF resources resulting in $333 per pupil (apart from adjustments for cumulative prior year shortfalls).

Source:

Arizona Auditor General, *Arizona Public School Districts Dollars Spent in the Classroom, Fiscal Year 2005* (Phoenix, AZ: State of Arizona Office of the Auditor General, May 2006); Available: **http://www.azauditor.gov/Reports/School_Districts/Statewide/2006_May/2006_Classroom_Dollars_Spent_in_the_Classroom_Prop301_ExecSumm.htm.**

Arizona Revised Statutes § 15-977 and -978; Available from the Arizona State Legislature: **http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp?Title=15.**

CONCLUSION

This issue paper provides some important considerations for the financial planning of teacher compensation reform that have been highlighted in available research and analysis of existing or past projects. The experience gained by states and districts that have already grappled with this type of change may be extrapolated into useful guidelines, but this experience was nonetheless specific to the people, politics, needs and resources of each respective state or district. While these recommendations may help to inform the planning of new endeavors, it is important to note that they are neither exhaustive nor infallibly universal. Policymakers can certainly benefit from this growing body of knowledge, but when planning for the practical application of compensation innovations they "should be mindful of demographics, culture and other related factors when redesigning [their own] teacher compensation systems."[51] This combination of external and internal learning will support the planning of effective strategies for financing the implementation and long-term success of teacher compensation reform.

Things to Consider when Developing and Implementing Diversified Teacher Compensation

- Develop short- and long-term financial planning based on the evaluation of both general and unique needs and costs
- Consider the intensity of reform, the level of participation and initial start-up costs as well as ongoing operational costs.
- Consider the possible limitations of each type of funding source and how they may be coordinated to provide adequate support and a measure of flexibility throughout the various steps of implementation.
- Align funding sources according to the nature and duration of costs needs.
- Consider that an effective research and development phase can support the projection of costs arising from system-wide change, cultivate broader understanding and support for the program, and aid the development of an effective implementation strategy.
- Consider educational philanthropy as venture capital support during the development and implementation of diversified compensation.
- Secure a protected funding source for long-term sustainability
- Consider teacher/community confidence and its impact on overall program success
- Conduct ongoing program evaluation and financial projections.
- Recognize that appropriate and protected long-term funding is key to a program's overall success.

RESOURCES

Note: all URLs are live links.

The Education Commission of the States (ECS) Web site provides a variety of information and resources related to teacher compensation redesign. **http://www.ecs.org**

- ECS Teaching Quality Issue Site: **http://www.ecs.org/ecsmain.asp?page=/html/issue.asp?IssueID=129**
- ECS Redesigned Teacher Compensation Database: **http://www.ecs.org/ecsmain.asp?page=/html/educationissues/teachingquality/NCLB-HQTP/T_Comp.asp**
- *Diversifying Teacher Compensation* – Aimed at policymakers intrigued by the idea of moving teacher pay beyond the single salary schedule, this joint ECS/Teaching Commission issue paper provides an overview of the research on such a shift; key findings and questions from previous experiences; an overview of some recent attempts to diversify teacher pay; and a comparison and detailed summaries of four leading programs and proposals at the district and school levels. (Azordegan, Byrnett, Campbell, Greenman and Coulter, Education Commission of the States, November 2005): **http://www.ecs.org/clearinghouse/65/83/6583.pdf**
- ECS and NCSL Policy Forum on Teacher Compensation Redesign in Wilmington, DE April 28-29, 2006: **http://www.ecs.org/ecsmain.asp?page=/html/meetingsEvents/TeacherCompForum2006/teachercomp-forum.asp.**

The Consortium for Policy Research in Education (CPRE) Web site provides information on teacher compensation reform in a variety of policy briefs, research reports and case studies (see Publications). Resources include sites pertaining to Knowledge and Skills Based Pay and School Based Performance Awards. **http://www.cpre.org/index_js.htm**

- CPRE Teacher Compensation Conceptual Papers/Articles; available at: **http://www.wcer.wisc.edu/cpre/publications/tcconceptual.php.**

National Governor's Association (NGA), *Rewarding Teacher Quality: A Tool for Developing and Implementing Effective Incentive Pay Programs*. This Web site provides useful information and lessons-learned from states already undertaking teacher compensation reform. (National Governor's Association, October 2001, accessed December 2006); available from NGA at: **http://www.subnet.nga.org/incentivepay/**

Denver Public Schools has useful information regarding various aspects of its new Professional Teacher Compensation (ProComp) System at the ProComp Web site: **http://denverprocomp.org.**

Minnesota Department of Education provides information about the Q Comp Program with a variety of useful resources on its Web site: **http://education.state.mn.us/MDE/Teacher_Support/QComp/index.html.**

- FY 2006 Q Comp Revenue information: **http://education.state.mn.us/MDE/Accountability_Programs/Program_Finance/General_Education/QComp/index.html.**

Arizona Department of Education provides information and analysis regarding Proposition 301's Classroom Site Fund revenue and expenditures at: **https://www.ade.az.gov/schoolfinance/FAQs/CSF/CSF.asp.**

U.S. Department of Education provides information and resources about the Teacher Incentive Fund (TIF) program on its Web site at: **http://www.ed.gov/programs/teacherincentive/index.html.**

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