

Department of Legislative Services  
Maryland General Assembly  
2007 Session

FISCAL AND POLICY NOTE

Senate Bill 673 (Senator Harris, *et al.*)  
Education, Health, and Environmental Affairs

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Education - Teachers - Merit-Based Pay

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This bill requires a local board of education to implement a system of merit-based pay in a public school that is in restructuring status, whether or not it has been negotiated through collective bargaining, if the majority of the certificated staff working in the school are in favor of the merit-based pay system. The implementation of the pay system is subject to the availability of private funds donated to a school or school system for the purpose of implementing a merit-based pay system.

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Fiscal Summary

**State Effect:** If the bill results in a higher teacher salary base, general fund expenditures for teachers' retirement could increase beginning in FY 2010. Revenues would not be affected.

**Local Effect:** To the extent that the bill attracts private donations, local school system revenues from the donations and expenditures for merit-based pay could increase beginning in FY 2008.

**Small Business Effect:** Minimal.

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Analysis

**Current Law:** Teacher salary scales are governed by collective bargaining agreements between the local boards of education and local employee organizations. Local boards and employee organizations may negotiate merit-based pay systems but are not required to do so.

Schools with students who have been unable to make “adequate yearly progress” for consecutive years on State assessments are designated for school improvement. A school that is designated for improvement may eventually be placed in restructuring status if students at the school continue to perform below State standards. Schools identified for restructuring must prepare and implement a plan for an alternative governance structure at the school.

**Background:** A March 2006 article in *Education Week* (“Aligning the System: The Case for Linking Teacher Pay to Student Learning”) acknowledges that there are questions about implementing good pay-for-performance models for teachers but argues that providing merit-based pay to teachers who have demonstrated their ability to enhance student learning over a number of years is the best way to improve education and further professionalize the field of teaching. The article notes that voters in Denver, Colorado approved a \$25 million increase in their property taxes to pay for a differentiated pay system for teachers and uses this example as evidence that taxpayers are willing to support innovative school reforms. Teachers unions have traditionally opposed pay-for-performance models, and have suggested that there is not enough evidence that the models successfully identify strong teachers and improve student learning. Merit-based pay systems are not limited to pay-for-performance models.

In the 2006-2007 school year there are 73 Maryland public schools in restructuring: 58 in Baltimore City, 13 in Prince George’s County, and 1 each in Baltimore and Frederick counties.

**State Expenditures:** The State pays teacher retirement costs on behalf of local school systems. State retirement costs are based on the actual teacher salary base from the second prior fiscal year. Therefore, if the bill results in a higher teacher salary base in fiscal 2008, general fund expenditures would increase to pay teachers’ retirement costs in fiscal 2010. The proposed fiscal 2008 State budget includes \$566.4 million for teachers’ retirement, an amount that is calculated from an estimated teacher salary base of \$4.9 billion. The increase in general fund expenditures would depend on the amount of private donations local school systems are able to generate for merit-based pay models. The State’s retirement contribution rate in fiscal 2010 is estimated at 12.56%, meaning a \$100,000 increase in the teacher salary base in fiscal 2008 would result in a general fund increase of approximately \$12,560 in fiscal 2010.

**Local Fiscal Effect:** If the bill results in private donations being made to local school systems, local school revenues would increase. The revenue from private contributions would be expended to implement merit-based pay systems for teachers in restructured schools. In the current school year, most restructured schools are located in Baltimore

City and Prince George's County, meaning these school systems would be the most likely systems to receive private donations for this purpose.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland State Department of Education, *Education Week*, Department of Legislative Services

**Fiscal Note History:** First Reader - March 6, 2007  
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