

HOUSE REPUBLICAN ALLIANCE RECOMMENDATION SHEET, PART 3 SPECIAL UPDATE

**THURSDAY, MARCH 17
REGULAR CALENDAR**



“Trust But Verify”

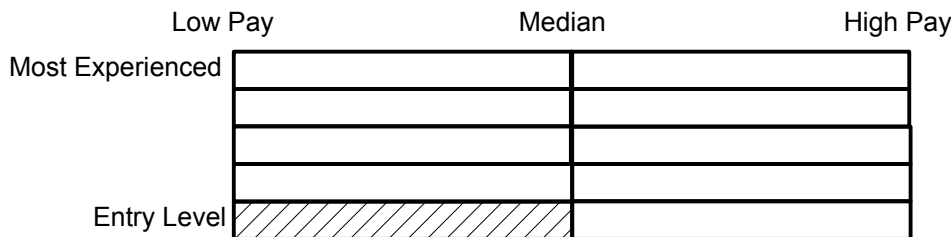
SPECIAL COMMITTEE ON EDUCATION FUNDING REFORM

HB 337-FN-L, relative to the calculation and distribution of adequate education grants. **OTP/A Vote 12-3**

Updated HRA Analysis: We'll start with the political reality. Because it is very difficult to ever give a school district less state aid than they received last year (we call this downshifting) and because we have no more money in the budget for state aid next year than we did this year, therefore every school district must be level funded from one year to the next. That is the exact content of the Floor Amendment we recommend. It makes things right at least for the next two years when school funding will change yet again.

The unamended HB 337 (and the whole formulaic approach to funding education) is an excellent lesson in unintended consequences. The bill attempts to cost out education per student by adding 1/30th the pay (plus 40% benefits) for a low-paid entry-level teacher, plus 1/500th pay plus benefits for principals, custodians, librarians, etc. Then special amounts are added for items like transportation and student characteristics like English-language learner, free & reduced lunch status, etc. That amount is then paid to school districts for each pupil in attendance.

The flaw is to assume that school boards and unions will not act any differently than they do today after the formula is in place. To the contrary, experience shows that people adapt quickly to incentives. In this case, districts can take advantage of the multiplier effect built into the formula to cause state aid to rise at a much greater rate than salaries. This can be illustrated as follows:



The boxes represent all teachers from low-paid on the left to high-paid on the right, and most experienced at the top to least experienced at the bottom. The formula is based on the average pay of the below-median, entry-level teachers, illustrated by the shaded box in the lower left of the diagram. In this illustration, they represent one tenth of the total pool of teachers.

Suppose a teacher in the shaded area gets a \$100 raise. That will cause state aid to the shaded group to go up \$140 including benefits. However, it will also result in an extra \$140 in aid for each of the other nine groups, for a total aid increase of \$1,400, or 14 times the original raise. In other words, if one teacher is paid \$100 more, the state will be out-of-pocket \$1,400.

This wouldn't be so bad if school districts give across-the-board raises. If they give an average of 2% raises to all teachers, then state payments would go up by 2.8%, including the 40% kicker. However, there is nothing preventing districts from concentrating their raises on the lowest paid, entry-level teachers, since all such raises come back 14 times higher. It would actually benefit districts to pay entry-level teachers much more than all other teachers, because of this multiplier effect.

Unintended consequences can be lurking in any kind of legislation. We must assume that people will find ways to turn rules to their advantage. This is one reason why the natural state of liberty is so superior to the artificiality of law.

HRA Recommendation: Support the 2011-0846h Floor Amendment then if it passes Support OTP/A

TRANSPORTATION

HB 540-FN, relative to motor vehicle inspections. **ITL Vote 11-1**

Updated HRA Analysis: HB 540 would simply make car inspections every other year. Thirty states do not require safety inspections at all, and most of the rest do it every other year or upon a triggering event, such as purchasing a used car or moving to the state. New Hampshire is one of only four states that tests statewide for safety and emissions annually. Three studies, most recently in 2008, have shown that states without safety inspections do not have more accidents or vehicle defects than states with inspections. DES is not opposed to the bill and the EPA allows states to test OBD biennially, as is the case in smog capitals CA and MA. There is no reason to cost our citizens time and money every year for inspections that have been proven ineffective.

HRA Recommendation: Oppose ITL, then Support OTP