

Memo: lower hourly compensation for ECE teachers
To: MS ECE financing team
From: HSPC ECE financing team
Date: November 26, 2003

We reviewed some preliminary unit cost estimates based on the Round II modifications to staff mix. The result of this review is that the hourly cost for Round II was not substantially reduced from Round I. In addition, the group recommended some financing policy options with lower income cut-offs, which raises concerns about middle-income affordability with these options. Thus, Cathy Grace suggested developing one set of unit costs that reflect a greater reduction in unit costs from Round I.

There are several ways to reduce the overall cost of the ECE financing. For example, by lowering staff qualifications and/or reducing child: adult ratios. This memo focuses on one solution to lower the overall ECE cost by reducing staff's hourly compensation.

In the first round of policy analysis, the starting hourly salaries of BA ECE teachers were set to be equivalent to the starting hourly salary of a BA elementary school teacher in MS. The concept behind this equivalency is that a teacher with the same qualifications should earn the same hourly wage regardless of whether he or she works in an elementary school or an ECE setting. We estimate the annual starting salaries of elementary school teachers with a BA in MS to be about \$24,086 per year. Assuming nine months of work, this translates to an hourly salary of \$15.44. Thus, a starting ECE teacher with BA working full-time, full-year at \$15.44/hour would make an annual salary of \$32,115.

In this memo, we provide you with information to help you consider lowering ECE teacher salaries to reduce hourly and aggregate costs and to evaluate the extent to which you can still make teaching in ECE settings attractive to qualified candidates. First, we show you what the hourly salary for ECE teachers would be if ECE teachers and elementary teachers were paid the same *annually*. Next, we provide you with an hourly salary that is the mid-point between the original specification and this one.

If an ECE teacher is paid the same as an elementary teacher on an *annual* basis, the hourly salary will be less because they work more hours per year. For a full-time ECE teacher to make the same annually as an elementary school teacher they would only need to be paid \$11.58 per hour (a cost reduction of 25% compared to round 1). However, using annual equivalency instead of hourly equivalency assumes that there is no economic or personal value to not working the full year. Since people usually value their leisure time, this rate may not be attractive enough for people to stay in the ECE setting. Therefore, we may consider this rate as the lower bound option for reducing hourly compensation for an ECE teacher.

Another possible option is to set a starting ECE teacher salary at the mid-point between the annual equivalency hourly rate and the hourly equivalent rate. This hourly rate would be \$13.51 (a cost reduction of 12.5% compared to round 1). This rate takes into account the fact that people are concerned with their leisure as well as their annual income. This rate basically lets people trade-off between higher annual income and more time off from their primary occupation. On an annual basis, an ECE teacher would get paid \$28,246 (more than the \$24,086 an elementary school teacher gets), but works more months of the year. Both of

these hourly salaries are significantly higher than the current starting salaries of ECE teachers in MS.

These alternative hourly rates have been provided as an example of options to consider and ways to think of compensation in relation to elementary school teachers. Your group needs to think about what would be needed to achieve quality by attracting and retaining qualified staff over the next five years. The following questions need to be addressed:

- a) Do you want to consider lowering compensation to have some options that make a significant decrease in hourly cost, maintain middle-income affordability for all options, and make a significant decrease in aggregate state budget costs? (The policy options with this rate can represent an initial phase towards high quality ECE).
- b) If yes, what hourly rate would you like us to use for the starting ECE teachers with a BA?
- c) If no, because you want to maintain the principle of *hourly* equivalency, do you still want some options with a greater reduction in hourly cost that will have a bigger impact on affordability and aggregate costs? Are there other components (such as ratios) of the hourly cost where you may be willing to address reductions?