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December 30, 1998

Hon. Daniel E. Lungren
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Connie Lemus
Initiative Coordinator

Dear Attorney General Lungren:

This letter contains our review of the fiscal effect of proposed initiative file number SA98RF0022, called the "Student Charter Act," as required by Elections Code Section 9005.

BACKGROUND

Current law requires public schools to annually administer the Standardized Testing and Reporting (STAR) program to students in grades 2 through 11. Current law also requires school districts to have grade level promotion policies for students advancing from second, third, and fourth grades; elementary school to middle school; and middle school to high school. These grade level promotion policies must be based upon either STAR test results, student grades, or other indicators of academic achievement. Currently, the state does not fund the education of pupils in private school except for special education students whose need for services from a private school has been approved by a school district individual education plan (IEP).

PROPOSAL

This measure, self-titled the "Student Charter Act," adds provisions to the Education Code to establish (1) a new system of testing K-12 school pupils and (2) a system of cash grants for parents of private school children who pass the tests.

Testing and Grade Level Promotion

This measure eliminates all state funding for existing testing programs. In lieu of them, it requires the State Board of Education (SBE) to adopt a new nationally normed standardized testing program (Grade Level Examination) to assess all public school students in six subject areas—English language arts, mathematics, geography, physical sciences, history, and civics. The State Superintendent of Public Instruction would establish a level of proficiency on these tests which would determine if a student could advance to the next grade level or graduate from high school. The grade level exam would be administered at least six times a year to allow students multiple opportunities to pass the test.

Districts could promote at most 1 percent of the students who did not pass the test, based on specific justifications. Private school students could participate in the testing program, and would need to participate as an eligibility condition for a Scholastic Achievement Grant (described below). The SBE would also adopt a "periodic" version of the standardized tests to evaluate private school students' progress towards achieving the standards set in the annual test described above.

Scholastic Achievement Grants

The measure also creates the "Scholastic Achievement Grant Program" to provide grants to parents or guardians of private school pupils who pass the appropriate Grade Level Examinations and show progress from the prior year's score. Eligibility for the grants would be as follows:

- **Lower-Income Students.** Beginning in the 2001-02 school year, parents or guardians of private school children of any grade who are eligible to receive a free lunch in the federal free and reduced price lunch program would receive \$3,200 if their child passed the grade level test.
- **All Other Students.** In the 2001-02 school year, parents or guardians of private school students who are in first grade would receive a \$3,000 grant if their child passed the test. In the subsequent year, parents/guardians of first and second

graders would qualify, and so on each subsequent year until parents/guardians of private school children in all grades (K-12) would qualify for grants.

The grant levels noted above would be increased annually based on public school per-pupil spending.

Parents/guardians of special education students would be eligible for scholastic achievement grants without their children taking the exams, provided a "panel of experts" periodically certifies the student is showing satisfactory progress. The amount of the grant on behalf of a special education pupil would be not less than 90 percent of what it would cost the local school district to educate that child, based on an IEP approved by the district.

FISCAL EFFECT

The fiscal impact of this measure is highly uncertain as it would depend in large part on how people (parents, school officials, and students) respond to its provisions.

The measure's fiscal implications fall into five main categories:

- Cost of increased enrollment in public schools due to increased grade-level retention.
- Savings from students leaving the public schools for private or home schooling.
- Costs of grants for eligible students (1) already in private schools or (2) who would have enrolled in private schools notwithstanding this measure.
- Costs for special education students.
- Impact on testing and other administrative expenses.

In making our fiscal estimates, we have provided numbers for the fiscal year after the measure has been in effect for five years (2006-07). These estimates better reflect the ongoing annual impact of the measure, although full implementation would not occur for several more years.

Cost of Increased Retention and Remediation

Since students would have to pass grade level competency exams in order to advance a grade level, we expect the number of students repeating grades would increase, leading to higher public school enrollment. The number of students affected would depend on at least three factors:

- The test performance standards set by the State Superintendent.
- The effectiveness of remediation programs (after school, Saturday school, summer school).
- Increases in the dropout rate.

The impact of the measure on the retention rate would drive the fiscal impact. For instance, if it increased the rate by 1 percent a year, state school costs would increase by about \$150 million by 2006-07. If, however, they increase by 10 percent, costs would grow by about \$1.5 billion.

Net Savings From Students Leaving the Public School System

The state would save money as a result of students leaving the public school system for private schools or home schooling. Each student that exits the public school system would decrease the state's minimum spending guarantee for schools under the constitutional spending formula known as Proposition 98. Due to complexities in that formula, the per-student savings vary depending on the rate and timing of students leaving the public schools. For example, if 1 percent of students left the public schools each year, the minimum guarantee would be over \$3 billion less in 2006-07 than in the absence of the measure. If the "exit" rate were 3 percent, the guarantee would be over \$5 billion less.

At the same time the state realized savings from students departing the public schools, the state would incur costs for scholastic achievement grants for those students. Under the 1 percent annual exit assumption, these annual costs would be about \$1.3 billion by 2006-07, for a net annual savings of over \$1.7 billion when offset against the more than \$3 billion projected decline in the Proposition 98 guarantee. Under the 3 percent annual exit assumption, the scholastic achievement grant cost would be almost \$4 billion, for a net annual savings of over \$1 billion for 2006-07.

Cost of Scholastic Achievement Grants to Private School Children

In 1996-97, there were 615,000 students (approximately 10 percent of California students) enrolled in private schools. Under this measure, many of these students would become eligible for the grant program over time. For purposes of estimating the costs of providing grants to those students, we have assumed that virtually all private school students would receive these grants. As a result, we estimate that the cost of grants to private school students would be around \$1 billion annually by 2006-07.

Costs of Special Education Students

The measure would result in costs for special education students in private schools. They would be eligible for 90 percent of what it would cost to provide special education services to that child through the public school system. Achievement grants for these students could cost the state around \$10,000 per student, though the costs would vary greatly depending upon the severity of a student's disability. (These costs could range from roughly \$7,000 to over \$30,000 per child.) While the state would save some money on each special education student who leaves public school, it would incur costs to provide grants to those special education students currently in private schools. We estimate *net* costs, potentially in the hundreds of millions of dollars annually.

Testing and Other Administrative Costs

Cost of Test Program. The measure sets a maximum of \$15 per student for the costs of administering the new test. (We assume that the cost would be \$15 per student *each time* a student takes the test.) Public school students would take the test only once a year (or repeat bimonthly until they pass it). Private school students could take "periodic" tests at least six times per year. We estimate that over 10 million tests would be administered annually, at a total cost exceeding \$150 million. The state would save over \$50 million currently spent each year on state testing programs. Therefore, the net additional cost each year would approximate \$100 million. This amount would grow, with increased enrollments and number of students moving from public to private schools, to almost \$200 million by 2006-07.

Other State Administrative Costs. The measure would also impose costs on various state departments (such as the State Department of Education, the State Controller, and the Franchise Tax Board) to administer its provisions (such as tracking student test scores and processing and auditing grant claims). These costs could run in the tens of millions of dollars annually.

Other Impacts

In addition to the fiscal effects discussed above, the measure could have the following impacts:

- *State Mandates.* The measure requires the state to reimburse schools for any new costs in implementing its provisions. The magnitude of such costs is unknown, but could be major.
- *Capital Outlay.* The measure could either increase or decrease public schools' facilities needs, depending on the net enrollment effects of increased retention and increased number of pupils leaving the public schools. The net effect is unknown and would vary greatly by school district.

SUMMARY OF FISCAL EFFECT

This measure would result in significant annual costs to the state to provide scholarships to private school pupils, to administer the testing and reporting system, and to reimburse local school districts for state-mandated costs associated with testing and reporting. The measure would also result in some offsetting savings from students leaving the public school system.

The net fiscal impact of the measure on the state would ultimately depend in large part on how people respond to its provisions. For instance:

- If the measure had a small effect on retention rates but a significant impact on the number of students leaving public schools, it could result in net out-year costs of up to several hundreds of millions of dollars annually.
- On the other hand, if the measure had a large impact on retention rates and a smaller effect on public school students leaving public schools, it could result in net out-year costs in the billions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Craig L. Brown
Director of Finance