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December 29, 1999

Hon. Bill Lockyer
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Diane Calkins
Initiative Coordinator

Dear Attorney General Lockyer:

As required by Elections Code Section 9005, this letter contains our review of the fiscal effect of proposed initiative file number SA1999RF0051, which amends and retitles the Morgan-Hart Class Size Reduction Act of 1989 as the "Program to Reduce Class Size in Grades 9 to 12."

PROPOSAL

This measure expands the state's current high school class size reduction (CSR) program. To graduate from a public California high school, students must complete a minimum of three years of English, two years of math, two years of science, two years of social science, a one-semester course in American government and civics, and a one-semester course in economics. This set of courses is commonly referred to as the "core curriculum." Current law—the Morgan-Hart Class Size Reduction Act—authorizes state incentive payments to school districts to reduce class size to an average of 20 or fewer students in up to two 9th grade courses in the core curriculum. One of these courses must be English.

This measure eliminates (1) the current limit of two courses, and (2) the current restriction to 9th grade. Thus, participating schools would qualify for incentive payments for all of core curriculum courses in grades 9 through 12. This program would depend on its funding from annual appropriations by the Legislature.

FISCAL EFFECTS

The fiscal impact of this measure would depend in large part on how many high schools make use of the expanded program, and how many additional classes are reduced in those schools. The measure would result in both operations and capital outlay costs.

Operations Cost of Expanding the Current CSR Program

The operations cost of this measure would depend primarily upon the following factors:

- The number of classes each high school student takes in the core curriculum. (Often, students take more than the required number of core curriculum classes.)
- How many schools participate in the Program to Reduce Class Size in Grades 9 to 12, and how many specific courses those schools choose for purposes of the program.

Operations Costs Under Different Participation Scenarios. Under the current 9th grade CSR program, just over half of 9th graders attended a reduced-sized English class in the 1998-99 school year. Participation rates were significantly lower for the other eligible subject areas. We expect that participation in the current program has increased in the 1999-00 school year, due to an increase in the state incentive rate from \$135 to \$165 per student in each reduced-size class. Nevertheless, many schools have yet to implement the current program to the maximum of two courses. The participation rate for the state's kindergarten through 3rd grade (K-3) CSR program in its third year of operation (1998-99) was 92 percent of K-3 enrollment. We would not expect this high level of participation in the expanded high school program in the initial years. Instead, we expect that many high schools would experience significant problems in attempting to reduce class size in all core curriculum courses. These problems would include facility constraints (particularly for science laboratory classes) and shortages of qualified teachers (particularly in science and mathematics).

In the *1999-00 Budget Act* the Legislature appropriated \$160 million for the 9th grade CSR program, based on (1) an incentive rate of \$165 per student in each reduced-size class, and (2) an assumption of full participation by eligible schools. If this measure were enacted in the November 2000 election, we assume that the Legislature would appropriate funds for the program expansion in the first budget act following voter approval—that is, the 2001-02 fiscal year. We estimate that the state would spend about \$175 million in 2001-02 for the current 9th grade CSR program based on projected cost-of-living adjustments. Expanding the CSR program to the full extent authorized by this measure would cost the state an additional \$700 million to \$1 billion in annual operations costs. However, as mentioned above, we do not expect all schools to fully participate in the first years.

For example, assuming that students would take an average of 3.5 core curriculum courses each year, and that participation rates for the program established by this measure were 30 percent of eligible enrollment, we would estimate additional annual costs of approximately \$150 million. By contrast, if participation rates were 92 percent (the same as K-3 CSR), we would estimate additional costs of over \$800 million. Thus, depending on the number of core curriculum courses students would take on average each year and participation rates, annual operations costs of this measure could range in the low to high hundreds of millions of dollars in the first few years of implementation. These costs would grow over time as more schools participate, high school enrollment grows, and cost-of-living increases are given. In the long run, we would expect that facility and teacher supply constraints would gradually ease, and operations costs could approach or exceed \$1 billion annually. The above estimates assume that the Legislature would appropriate the necessary funds. In addition, some school districts with costs in excess of \$165 per student would have to incur their own operations costs in order to participate in the program.

Capital Costs

Assuming each high school student takes 3.5 core curriculum courses per year, we estimate that moving from the current average student to classroom ratio of 27 to 1 to a ratio of 20 to 1 in all the core curriculum courses at *all* high schools could require up to 11,000 additional classrooms. Again, the actual number of new classrooms needed would depend upon the number of core curriculum courses students would take on average each year and the participation rates in the expanded CSR program, and on how districts provide classrooms for the program.

This space could be met within existing facilities—either through currently unused capacity or through more intensive usage of facilities (for example, adding another class

period per day)—or by providing new classrooms. The new classrooms could include building additional classrooms or purchasing or leasing portable structures.

The state and local school districts could incur major new costs to provide additional classrooms. For example, under an existing state program new portable classrooms can be acquired and installed for about \$60,000 to \$70,000 each. (Permanent space would be more expensive.) If a substantial portion of the space demand were met through new facilities, the costs could be in the hundreds of millions of dollars in total over the next several years.

SUMMARY OF FISCAL EFFECTS

This measure would have the following major fiscal effects:

1. State costs in the hundreds of millions of dollars annually, growing over time, to provide incentive funding to high schools reducing class sizes in core curriculum courses. Unknown costs to some local school districts to cover program costs in excess of state incentive payments.
2. Potential costs of hundreds of millions of dollars in total over the next several years to provide additional facilities for class size reduction.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance