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January 5, 2000

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

Attention: Ms. Diane Calkins  
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative called "The California Class Size Reduction Act" (File No. SA1999RF0063).

**PROPOSAL**

This statutory measure establishes a program to reduce class sizes to a student-to-teacher ratio of 20 or less in grades 4 through 6 and in the core academic courses (English, mathematics, science and social science) in grades 7 through 12. The program would be phased in over a multiyear period. In order to pay for this class size reduction (CSR) program, the measure increases the state sales tax rate one-half percent by the third year of the program phase in. However, the measure does *not* increase the *use* tax rate. The revenues generated by the tax increase would be (1) deposited in the California Class Size Reduction Fund (CCSRF) created by the measure, and (2) continuously appropriated for the measure's purposes.

## Expanding the Current Class Size Reduction Programs

Currently, there are two programs under which the state provides incentive payments to school districts in order to reduce class sizes.

- Since 1996-97, the state has provided participating districts payments to reduce class sizes in kindergarten through 3<sup>rd</sup> grade (K-3).
- Under the Morgan-Hart Class Size Reduction Program, the state provides payments to reduce class size in up to two 9<sup>th</sup> grade core academic courses, one of which must be English.

This measure models the new 4<sup>th</sup> through 6<sup>th</sup> grade program on the K-3 CSR program, and models the 7<sup>th</sup> through 12<sup>th</sup> grade program on the 9<sup>th</sup> grade CSR program. The measure requires that each school district choosing to participate in the new CSR program reduce class sizes in the following order:

- Grades 4, 5, and 6 in that order.
- Grades 7 through 12 in English language arts with districts free to choose which grades to implement first.
- Grades 7 through 12 in math, science, or social science at district discretion; limited to one subject area or grade level per year.

Participation in the program would be contingent upon (1) adequate funding being available in the CCSRF, (2) the district having facilities available, and (3) the district being able to hire "qualified" teachers. The measure does not define "qualified teacher," but based on current state law a qualified teacher could be interpreted as any individual with authority from the Commission on Teacher Credentialing (CTC) to serve as a "teacher of record" in a California public school. Under this definition a qualified teacher would include anyone with a credential, emergency permit, approved participation in a teaching internship program, or a CTC waiver.

**Funding Priorities.** If revenues from the increased sales tax are insufficient to fund all districts which apply for grants, funding would be allocated based on a first-come, first-serve basis in each of the following priorities:

- **Priority 1.** Maintain the level of class size reduction in all the districts funded in the prior year.

- **Priority 2.** Districts switching from a half day CSR program to full day CSR in grades 4 through 6.
- **Priority 3.** Districts that applied in a prior year, but did not receive a grant due to insufficient funds.
- **Priority 4.** Newly applying districts.
- **Priority 5.** Districts applying to expand their programs.

Funding provided from the sales tax revenues deposited in the CCSRF would *not* count toward meeting the state's constitutional minimum funding guarantee for K-14 education (commonly known as "Proposition 98"). The measure, however, gives the Legislature the option of augmenting the sales tax revenues deposited in the CCSRF by transferring money from the General Fund to the CCSRF. Any such transfers *would* count as appropriations toward the Proposition 98 minimum funding guarantee.

#### FISCAL EFFECTS

The fiscal impact of this measure would depend upon (1) general economic factors affecting sales tax receipts, (2) school districts' participation in the new CSR program, and (3) how school districts meet their additional space needs. The measure would result in both operations costs to be funded by the sales tax increase, and potential capital outlay costs for local school districts and/or the state.

***Increasing the Sales Tax Rate.*** The state sales tax rate is currently 6 percent, of which 5 percent is allocated to the state's General Fund, 0.5 percent is allocated to the Local Public Safety Fund, and 0.5 percent is allocated to the Local Revenue Fund. A uniform tax rate of 1.25 percent is levied in all counties, and local governments are authorized to levy an optional additional tax not to exceed 1.5 percent. Currently, total sales tax rates range from 7.25 percent to 8.5 percent. This measure would add an additional statewide rate of 0.5 percent to the sales tax, once it is fully phased in.

The first prescribed increase in the sales tax rate (.25 percent) would go into effect in the first fiscal year following passage of the measure (presumably 2001-02), and would yield increased revenues of approximately \$1 billion. For years 2002-03 and 2003-04, the revenue increases would be approximately \$1.6 billion and \$2.3 billion, respectively.

***Students Served Under the New CSR Program.*** The number of students served under the new program would depend on the revenues generated from the increased sales

tax, and the capacity of school districts to implement the program. For example, under the simplified assumption of all districts implementing CSR at the same rate, the estimated \$1 billion of first-year revenues could support CSR for all 4<sup>th</sup> and 5<sup>th</sup> grade students, and approximately 30 percent of 6<sup>th</sup> grade students. By 2003-04 when the full half-a-percent tax increase would be implemented, the revenues could support CSR for all 4<sup>th</sup> through 6<sup>th</sup> grade enrollment, and an average of slightly above two reduced-sized classes per student enrolled in grades 7 through 12 (including the 9<sup>th</sup> grade classes already funded through the Morgan-Hart CSR program).

*The CSR Participation Would Likely Vary Across Districts.* The participation rate for the state's K-3 CSR program in its third year of operation (1998-99) was 92 percent of enrollment. In 1998-99 the participation rate was significantly less for the 9<sup>th</sup> grade CSR program. Just over half of 9<sup>th</sup> graders attended reduced-size English classes, and less than 20 percent attended reduced-size classes in another eligible subject. We expect the participation rate in the 9<sup>th</sup> grade program has grown in 1999-00 in response to an increase in the per-pupil incentive from \$135 per student per class to \$165 per student per class. However, we do not expect 9<sup>th</sup> grade participation rates to approach the K-3 participation rate within the near future under current law.

Similar to the existing programs, we would expect that not all school districts would be able to implement the new CSR program. School districts must overcome two main obstacles in order to implement CSR—finding enough classroom space and enough qualified teachers. These two constraints may prohibit many school districts from fully participating in the expanded CSR, particularly in the first few years of the program.

- *Facilities.* This measure prohibits using CCSRF monies on facilities. Many districts are currently at or near their capacity to “house” students. Further CSR would quickly exhaust any excess capacity. In the short-term, the costs of new facilities (discussed below) would constrain many districts from participating.
- *Hiring Fully-Trained and Qualified Teachers.* The K-3 and 9<sup>th</sup> grade CSR programs have resulted in localized shortages of fully trained teachers. In some districts and at some school sites half or more of the teachers lack teaching credentials, and are serving as “teachers of record” through emergency permits and waivers. Districts in this situation lack sufficient veteran teachers to mentor and train the newcomers. Some of these districts may decline to participate in the new program this measure would create until they are able to resolve their staffing situations.

In addition, for some districts the state incentive payment might not be adequate. Some of these districts might refrain from participation due to the magnitude of local cost they would incur.

If participation rates are low, not all of the revenues deposited in the CCSRF would be spent. Under this circumstance, the monies would accumulate in the CSR Fund, and would be available to fund future 4<sup>th</sup> through 12<sup>th</sup> grade CSR. In the longer-run, we expect that facility and teacher supply constraints would become less binding, participation rates would increase, and CCSRF monies would be fully subscribed.

**Capital Outlay Costs.** Reducing class size in grades 4 through 12 would substantially increase demand for classroom space. Districts could meet this increased demand by (1) using capacity more intensively (for example, by adding another class period per day or converting to a multitrack year-round schedule), (2) providing new classrooms (by building additional classrooms or purchasing or leasing portable structures), or (3) combining these two methods.

Elementary schools and secondary schools face differing space demands under CSR. Because elementary school students generally have one teacher in one classroom all day long, elementary school CSR creates demand for additional classroom space in a fairly direct way. Secondary schools, however, can meet some of their additional facility needs by adding an extra period in the morning or after school, teaching classes during lunch, or only reducing class size in certain subjects.

- **Elementary Facility Costs.** We estimate that the state will spend about \$1.3 billion (from operating funds and bond funds) and locals will provide a similar amount in meeting their K-3 CSR facilities needs. If the new facilities needs for grades 4 through 6 under this measure are similar to the K-3 CSR program, we estimate that this measure could cost the state and school districts as much as \$2 billion over several years.
- **Secondary Facility Costs.** If two subjects were reduced at all schools in grades 7 through 12, then additional space would be needed for the equivalent of up to 200,000 students. As noted above, this space could be met within existing facilities—either through currently unused capacity or through more intensive usage of facilities—or by providing new classrooms. The costs of new facilities, however, could easily be in the hundreds of millions of dollars.

Thus, under this measure the state and local school districts could incur major new costs—potentially exceeding \$2 billion—to provide additional facilities. This cost would be spread over many years.

**SUMMARY OF FISCAL EFFECTS**

This measure would have the following major fiscal effects:

- Annual state revenues of approximately \$2.3 billion by 2003-04 from an additional half-a-percent sales tax, supporting class size reduction in grades 4 through 12.
- Costs potentially in excess of \$2 billion, spread over many years, to provide additional facilities for class size reduction.

Sincerely,

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Elizabeth G. Hill  
Legislative Analyst

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B. Timothy Gage  
Director of Finance