February 22, 2000

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

Attention: Ms. Diane Calkins
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Election Code Section 9005, we have reviewed the proposed initiative called "Performance Accountability Voucher for Education" (File No. SA2000RF0006).

## PROPOSAL

If enacted by the voters, this constitutional measure would make dramatic changes in the state's role in education. The measure would:

- ***Repeal Education Provisions of Constitution.*** The measure repeals Article IX, Sections 1 through 8, and Sections 10 through 16 of the State Constitution—essentially the entire constitutional basis for the state's public schools (K-12) system, the California Community Colleges, and the California State University.

- ***Repeal Proposition 98 Minimum Funding Guarantee.*** The measure would repeal the constitution's minimum funding guarantee for K-12 education and the community colleges (Proposition 98).

- ***Create a Merit-Based Voucher System.*** Beginning in 2001-02 (assuming the measure is approved in the November 2000 election) students ages 5 through 21 would be eligible for an "Educational Performance Fund Certificate." The value of the certificate could not exceed $4,000 per student per year, with the amounts distributed based on students' performance on standardized norm-referenced tests. The certificates would be funded from the Educational Performance Fund, created by the measure. This fund would be financed from the proceeds of the sale of the public schools, as discussed below. The measure states that funding for the certificates be phased out over a 20-year period. At the end of 20 years, the state would no longer provide any funding for education certificates for students ages 5 through 21.

- ***Change the Name and Roles of Department of Education.*** The measure creates the Department of Educational Accountability (DEA) in place of the State Department of Education. The DEA would determine the tests that students could take twice a year to qualify for the certificates. Both public and private school students would be eligible for the program until public schools are phased out.

- ***Phase Out Public Schools.*** The measure requires the Legislature to phase out public schools over a five-year period by selling publicly-owned educational properties in the state. The proceeds from the sale are to be used first to reduce the state's and school districts' bonded indebtedness, with the remainder deposited into the Education Performance Fund to support the costs of providing students with certificates. During the five years in which the state is closing the public schools, the measure allows the Legislature to continue to fund public schools at the same per-pupil rate provided in the 2000-01 fiscal year.

- ***Eliminate Education Funding and Reduce Sales Tax.*** The measure states that the Legislature is to reduce, in equal increments, over a 20-year period the level of support provided for K-12 education. Following the 20-year phase out, all funding for K-12 education would cease. The measure also requires the Legislature to reduce the state sales taxes by the amount of the reduction in the cost of funding K-12 education, and that the "Gann Expenditure Limit" be reduced by an equivalent amount. Given the amount currently provided to public K-12 education, the state's sales tax would essentially be eliminated over the 20-year period.

- ***Prohibit State Regulation of Schools.*** The measure essentially prohibits the state from regulating private schools.

## FISCAL EFFECT

If enacted by the voters, this measure would have the following major fiscal effects.

### Impact on State and Local School Costs

The measure initially sets a maximum amount that can be spent on K-12 public schools and certificates. In the first year, this amount is *higher* than what the state and local schools would be required to spend (under the state's Proposition 98 minimum funding guarantee), due to certificate payments to existing private school students and to students ages 18 through 21. We estimate a potential state cost of over $2 billion in the first year.

Thereafter, however, the maximum amount of school spending would be *les*s than what the state otherwise would have spent. We estimate that annual savings would be in the billions of dollars in the near term, growing rapidly to about $100 billion annually by the time school spending is ended after 20 years. These savings would accrue to the state and to local property taxpayers.

### Revenues From the Sale of Public School Property

The state has over 8,000 schools varying in size from only a few students to over 5,000 students. The sales of these schools would generate revenues which could be in excess of $100 billion. These one-time revenues, first, would provide relief to local property taxpayers (who would no longer pay "add-on" property tax rates to retire the costs of school facilities) and, second, would accrue to the state.

### Other Fiscal Effects

***Capital Outlay Savings.*** Historically, state and local governments spend as much as $1 billion annually to build new schools and maintain and renovate existing schools. Closing the public schools would save state and local schools this annual cost.

***Potential Loss of Federal Funds.*** The state implements many education programs required by the federal government. This amendment could result in California not complying with federal law. For example, the state is required to offer special education services to all students needing such services, and ensure that students receive appropriate education services. Under this amendment, the state may not be able to guarantee that each special education student receives appropriate services. The state receives over $3.6 billion annually from the federal government for K-12 education. Most of this funding only goes to public schools and not to private schools. Since this amendment would close all of the public schools, the state would lose most of this funding.

***Potential Impact on the General Economy.*** The measure may have large macroeconomic effects on the state's economy resulting from such changes as: the sell-off of public school assets, reductions in state and local taxes, and impacts on the quantity and quality of education provided in the state. Since these macroeconomic effects would interact with each other, it is difficult to predict the overall impact the amendment would have on the state's general economy over time.

**Summary of Fiscal Effects**

This measure would have the following major fiscal effects:

- Long-term (after 20 years) annual state and local savings approaching $100 billion from the elimination of public support of K-12 education.

- One-time revenues potentially exceeding $100 billion from the sales of public schools.

- Other fiscal effects include: (1) capital outlay savings to state and local governments of as much as $1 billion annually from not having to build, renovate, or maintain public schools; and (2) potential loss of federal funds in the billions of dollars annually.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

B. Timothy Gage
Director of Finance