September 12, 2003

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

Attention: Ms. Tricia Knight
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Elections Code Section 9005, we have reviewed the proposed initiative (File No. SA2003RF0030) to reduce class size in kindergarten through twelfth grade (K-12). Below, we: (1) identify the state's existing class size reduction (CSR) programs, (2) describe the provisions of the proposed CSR initiative, and (3) analyze the initiative's fiscal effect.

Background

The *2003-04 Budget Act* includes a total of $1.8 billion for two existing CSR programs.

- ***State Spends $1.7 Billion Annually for K-3 CSR Program.*** Chapter 163, Statutes of 1996 (SB 1777, O'Connell), established this voluntary program. The program encourages school districts to reduce class size in K-3 to no more than 20 students. This cap applies to each participating K-3 class. The state provides incentive funding for each student enrolled in a reduced-size class. In 2003-04, the budgeted per pupil funding rates are $906 for students in full-day reduced-size classes and $453 for students in half-day reduced-size classes.
- ***State Spends $110 Million Annually for Ninth Grade CSR Program.*** Chapter 334, Statutes of 1998 (SB 12, O'Connell), established this voluntary program. The program encourages school districts to reduce class size in up to two ninth-grade courses (with one course being English). The program requires that each participating school reduce relevant ninth-grade classes to an average of no more than 20 students, with a per-class cap of 22 students. The state provides incentive funding for each student enrolled in one of these reduced-size classes. In 2003-04, the budgeted per pupil funding rate is $180.

Provisions of the Initiative

The proposed initiative, a constitutional amendment, specifies maximum allowable class sizes in public schools for grades K-12. Specifically, the initiative requires that class size be no larger than 15 students for grades K-3, 20 students for grades 4 through 8, and 25 students for grades 9 through 12. Currently, the statewide average class size is approximately 19 students for grades K-3, 29 students for grades 4 through 6, and 28 students for grades 7 and 8 and grades 9 through 12.

The initiative has phase-in requirements. Specifically, the Legislature is to reduce average class size by at least two students each year beginning in 2005-06 and continuing until the class sizes identified above have been met. The initiative requires the Legislature to ensure that all classes have been reduced to at or below the specified maximums by the beginning of the 2012-13 school year. The initiative requires the state to cover all costs associated with reducing these class sizes.

Fiscal Impact

The proposed CSR initiative would result in major new costs because of the need to add more teachers and facilities and cover support costs. We discuss these below.

Teacher Costs. The most significant fiscal impact results from the need to add more classroom teachers. When fully implemented, this measure would increase the number of classroom teachers statewide by approximately 75,000 or 25 percent. Because the program would be phased in, the annual teacher costs would grow considerably in the first few years of the program and then begin leveling off as the target class sizes were reached. We estimate these teacher costs to be at least $1 billion in 2005-06, growing to roughly $5 billion in 2008-09 and $6 billion in 2011-12.

Facility Costs. To accommodate the smaller class sizes, the state would need to expand significantly the number of classrooms (probably relying on a combination of portable and permanent structures). When fully implemented, this measure would increase the number of classrooms statewide by up to 70,000 or roughly 23 percent. Since enrollment projections suggest that half of the counties in the state will experience declining enrollment during this period, a portion of the demand for additional classrooms can be met with existing sites. We estimate that these additional, primarily one-time costs would be approximately $15 billion. Most of these costs would be incurred in 2005-06 and 2006-07 because many new classrooms would need to be made available immediately. These costs could be funded with a combination of state general obligation bonds (which require voter approval) and direct General Fund appropriations.

Related Support Costs. The proposed CSR initiative also would generate a variety of costs to support the added teachers and facilities. These would include costs for teacher training and administrative overhead as well as classroom maintenance and utilities. We estimate these costs would start at about $500 million in 2005-06, rising to more than $1 billion annually by 2011-12.

Proposition 98 Effect. As noted above, this initiative would generate several billions of dollars in annual operation costs. The state could cover some portion of these costs within the Proposition 98 minimum guarantee. (This is a minimum level of annual support for K-12 schools and community colleges that is required by the State Constitution. Proposition 98 monies historically have been used only for operation costs and not for facility costs.) Any CSR costs so accommodated, therefore, would not be above what the state otherwise would be constitutionally required to spend on K-12 education. Even in such cases, however, the measure would require major Proposition 98 allocation decisions. Every dollar used to fund the proposed CSR initiative would be a dollar that could not be used for other K-14 education priorities, such as enrollment growth, annual cost-of-living adjustments, and special education.

Summary

The proposed CSR initiative would have the following major fiscal effects.

- State operating costs (including teacher costs and support) of more than $1.5 billion in 2005-06, growing to about $7 billion annually by 2011-12.
- One-time state school facility costs of about $15 billion.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Steve Peace
Director of Finance