

February 16, 2005

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 Election Code Section 9005, we have reviewed the proposed measure entitled the "More Money for the Kids Act" (File No. SA2005RF0017).

Proposal

The proposed initiative requires school districts to spend at least 75 percent of operating funds on direct classroom instruction beginning in the first full school year following enactment of the measure. Beginning in the second full school year after enactment, the initiative would require districts to increase the proportion of funds dedicated to direct classroom instruction by 1 percent annually, until it reaches 80 percent. The initiative defines "direct classroom instruction" based on accounting rules developed by the federal government.

The measure also:

- Requires districts to add to existing School Accountability Report Cards school level data on operating expenditures, including the amount spent on direct instruction, salary expenditures for teachers, aides, and administrative and other staff at the school and how these items of expenditure changed from the previous year. Districts would be required to send this data to the State Controller and would be subject to audit.
- Requires county office reviews of school district finances to include a review of operating expenses by program or service and a review of whether district budgets spend the required proportion of funds on classroom instruction.

Fiscal Effect

This measure would have a major fiscal impact on school district finance as it would require districts to spend a higher percentage of local, state, and federal funds on direct instruction (as defined). Data for fiscal year 2001-02 suggest school districts spent much less than the threshold amount on direct instruction. To reach the 75 percent level required in the measure, districts would have to redirect hundreds of millions or billions of dollars in expenditures statewide to activities that are defined as direct instruction.

To redirect funds to direct instruction, districts would be required to reduce spending on functions that do not fall within the definition of direct instruction. This would include expenditures for operations and maintenance, school administration, school lunch programs, and student transportation.

School Site Accounting. The measure would increase district administrative costs due to the requirement to include in School Accountability Report Cards data on school expenditures by category of expense. Currently, districts are not required to track expenditures at the school level. As a result, this measure would create a new district cost for those districts that do not currently have accounting systems capable of capturing school-level data. Statewide costs to implement changes to district accounting systems and ongoing costs to operate those systems could be in the tens of millions of dollars annually.

Application of Requirement Is Unclear. The language of the initiative's Constitutional amendment and its placement in Section 14.1 of Article IX raises a question about whether the spending requirement would apply to all K-12 school districts. Specifically, Section 14 refers to "school districts, high school districts, and community college districts." The proposed Section 14.1, however, directs only *school districts* to spend 75 percent of expenditures on direct instruction. By implication, therefore, the measure could be interpreted to include elementary or unified school districts, but not high school districts. Not including high schools reduces the fiscal impact of the measure significantly. Our analysis assumes the initiative affects all K-12 districts, including high school districts.

Summary

The proposed initiative would have the following major fiscal effect:

- Redirects hundreds of millions to billions of dollars in school spending from nonclassroom activities to direct classroom instruction.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Tom Campbell
Director of Finance