



LEGISLATIVE ANALYST'S OFFICE

Class Size Reduction: A First Look at Implementation

The Legislature and the Governor created the Class Size Reduction (CSR) program as part of the *1996-97 Budget Act*. The program is intended to increase educational achievement by reducing statewide average class size from 28.5 to no more than 20 in up to three grades from kindergarten through third. Figure 1 summarizes the provisions of the CSR program.

Most school districts elected to participate in the program. Of the 895 school districts eligible for the CSR program, 95 percent, or 845 districts, elected to participate. Of the participating districts, about 85 percent began reducing class sizes at the beginning of the school year. All participating districts must complete implementation of the program by February 1997. Figure 2 (see next page) summarizes district participation and funding.

As Figure 2 shows, districts expect to claim \$629 million, or 82 percent, of the funding appropriated for CSR. Of districts implementing CSR, fewer than 2 percent have chosen Option 2 in grades 1 through 3. In kindergarten, 20 percent of implementation has occurred under Option 2. Thus, the use of Option 2 is

Figure 1

Features of the Class Size Reduction (CSR) Program

- **Almost \$1 Billion Appropriated in 1996-97**
The Legislature provided \$771 million in operational funds and \$200 million in facilities funds.
- **Districts May Implement CSR in up to Three Grades**
Implementation must begin with grade 1, followed by grade 2 and then either kindergarten or grade 3. Districts may not implement CSR in a grade until all classes in the higher-priority grade(s) have been reduced to 20.
- **Districts Have Two Implementation Options**
Districts receive funding for reducing class size to no more than 20 under either of two options:
 - Under "Option 1," districts receive \$650 for each student in a class of no more than 20 for a *full* day.
 - Under "Option 2," districts receive \$325 for each student in a class of no more than 20 for a *half* day.
- **Per Pupil Funding Is Based on Estimated Teacher Costs**
The Legislature assumed that many teachers hired for CSR would be near the entry level of the salary schedule.
- **Implementation Deadline Is February 16, 1997**
In 1996-97, districts receive funding only for implementation that occurs by February 16, 1997.
- **One-Time Facilities Grants Are Available**
Districts may apply for facilities grants of \$25,000 per new classroom.

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Figure 2

Features of Class Size Reduction (CSR) Program

➤ Districts participating	851 out of 895
➤ Amount of ongoing funds claimed	\$629 million out of \$771 million
➤ Amount of facilities funds claimed	\$200 million out of \$200 million
➤ Percent of CSR districts implementing in first semester of 1996-97 school year ^a	85%
➤ Percent of all K-3 students enrolled in a smaller class	52% ^b

^a Data from School Services of California.

^b Funding is available for a maximum of 75 percent of K-3 students (up to three out of four grades).

substantially lower than the 25 percent anticipated in the budget.

Figure 2 also shows that 52 percent of the state's K-3 students are expected to be in small classes this year. District implementation of CSR focused on grades 1 and 2, as shown in Figure 3. Ninety-two percent of the state's grade 1 students and 74 percent of grade 2 students will be in small classes by the implementation deadline of February 16, 1997. Implementation in kindergarten and grade 3 is significantly less common.

One-time funds for facilities have been insufficient to meet demand. As Figure 2 shows, the entire \$200 million appropriation in the 1996-97 Budget Act was distributed to schools. The State Department of Education received 14,000 requests for facilities

grants to implement the CSR Program. Available one-time funds will cover 8,000 of these requests. The Superintendent of Public Instruction and the Governor have advocated using unspent 1996-97 CSR operational funds to provide additional facilities grants.

Figure 4 (see page 3) shows the existing number of K-3 classes in the state in 1995-96 and the number of new classes that will be created by CSR in 1996-97. Overall, CSR will add about 18,000 new K-3 classes in the state, an increase of 21 percent. The statewide average class size in kindergarten through grade 3 was about 28.5 in 1995-96. We estimate that K-3 class size will average about 23.5 by the end of the 1996-97 school year.

Emerging Issues

The state faces a number of new issues as a result of the CSR program. These include:

Figure 3

Percent of Students Who Will Be in Small Classes

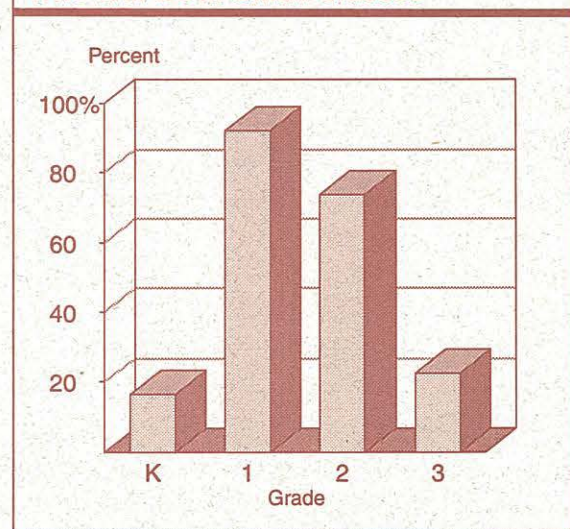
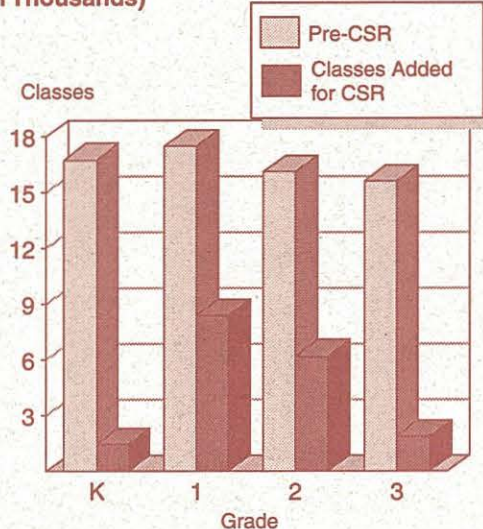


Figure 4

Class Size Reduction Will Result In About 18,000 New K-3 Classes^a

(In Thousands)



^a Expected as of 2/16/97.

Few Districts Are Using Option 2. In providing \$771 million per year for CSR operating costs, the Legislature believed it was providing sufficient funds to implement CSR statewide in three grades. However, this figure assumed that 25 percent of CSR classes would be under Option 2—which provides half the per-student funding (\$325) for a half day of smaller class size. In fact, only 3 percent of CSR implementation in 1996-97 is under Option 2. Assuming (a) current trends in use of Option 2 continue and (b) current per-student funding levels for both options, the CSR program will actually cost about \$880 million per year for full implementation in three grades, or an additional \$110 million.

Adequacy of Per-Pupil Funding Is Uncertain. The \$650 per-pupil incentive funding pro-

vided by the Legislature for CSR may not be sufficient to fund the costs of the program in some districts, while others will find that CSR funding exceeds their costs. Some districts argue that the Legislature should fund all additional costs of the program. Thus, the Legislature will have to determine whether additional CSR funds are needed and, if so, whether these funds should be targeted for CSR by the state or provided to districts to spend at their discretion.

Shortages of Facilities Funds. The one-time funds set aside by the Legislature will provide 8,000 facilities grants out of 14,000 requests. These grants generally cover only about half the cost of portable classrooms. Some districts argue that lack of funds earmarked for facilities hamper their ability to implement CSR.

Anecdotal Reports of New Potential Issues. Both anecdotal and newspaper reports suggest a number of issues at both the state and local level. Some districts report:

- Difficulty finding enough qualified teachers to implement CSR.
- An influx of new students transferring from private schools to public schools, due to CSR.
- Converting some school facilities, such as child care facilities or libraries, into classrooms for CSR.

Outlook for 1997-98

We project that there will be sufficient funds to continue the current CSR program in 1997-98. In our *California's Fiscal Outlook*, released in

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November 1996, we projected that Proposition 98 funding in 1997-98 will be adequate to support the existing K-12 program and provide about \$500 million for new initiatives. The Leg-

islature will need to determine whether to spend these additional funds on CSR, other K-12 reforms, or for increases in general purpose funding for K-12 districts.

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Economic and Revenue Developments

The California Economy

Recent reports continue to indicate that California's economy is expanding at a healthy pace in the second half of 1996. Based on recently-released interim benchmark revisions, it appears that wage and salary employment in October was up by nearly 400,000 jobs from the prior year—a gain of 3.4 percent. In other developments, permits for new residential construction exceeded 105,000 units (seasonally adjusted annual rate) in both September and October, providing some evidence that real estate construction activity is finally beginning to improve.

On a less positive note, taxable sales growth moderated during the third quarter of 1996. Based on preliminary data, sales were up 5.6 percent during the July through September period from the prior year, which is significantly less than the over 8 percent increase experi-

enced during the first two quarters of 1996. The near-term outlook for sales remains positive, however, given the continuing gains in employment and income, as well as the improvement in home construction during recent months.

General Fund Revenues

Total receipts for the July through November period were up \$598 million (or 3.5 percent) from the 1996-97 *Budget Act* forecast. When adjusted for temporary gains in trial court revenues (see discussion in November's *Cal Update*), year-to-date receipts are up \$462 million. Of this adjusted total, about \$269 million is due to higher-than-expected personal income taxes, reflecting stronger-than-expected withholding and quarterly estimated payments. About \$178 million of the remaining increase is due to unusually large estate tax payments, a large portion of which will be accrued back to 1995-96.

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