cbp CALIFORNIA BUDGET PROJECT

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WHAT WOULD PROPOSITION 92 MEAN FOR CALIFORNIA?

Proposition 92, which will appear on the February 5, 2008 ballot, would establish a guaranteed level of funding for California's community colleges in addition to the current funding guarantee for K-14 education. The measure also would reduce community college fees and limit the size of future fee increases as well as change the way community colleges are governed. The California Budget Project (CBP) neither supports nor opposes Proposition 92.

What Would Proposition 92 Do?

Proposition 92 makes a number of changes to the funding requirements, fee structure, and governance of California's Community College system. Specifically, Proposition 92 would:

- **Establish a new minimum level of funding for community colleges.** In years when the Proposition 98 funding guarantee is calculated based on changes in inflation and enrollment (Test 2 or Test 3 years), Proposition 92 would require the Legislature to calculate a minimum funding level for community colleges separate from the minimum funding level for K-12 education beginning in 2007-08.[1] The calculation of the new community college guarantee would be based on inflation as well as the greater of the annual change in the number of Californians between the ages of 17 and 21 or the number of Californians between the ages of 22 and 25. In most years the growth in the guarantee also would be based on the state's unemployment rate. The new guarantee would not be based on actual community college enrollment.

  The new formula would establish a minimum enrollment growth factor of 1 percent, even in years when the growth in actual community college enrollment is less than 1 percent or when enrollment declines.[2] In contrast, the current Proposition 98 guarantee could result in a negative enrollment growth factor for K-14 education during periods when K-12 enrollment declines.[3]

  Proposition 92 also would limit the new community college enrollment growth factor to a maximum of 5 percent per year.

- **Reduce community college fees and limit future fee increases.** Proposition 92 would reduce community college fees to $15 per unit per semester.[4] The initiative also would limit future annual fee increases to the lesser of the percentage change in state per capita personal income or 10 percent. Proposition 92 would require a bill increasing community college fees to be approved by a two-thirds vote of the Legislature and signed into law by the Governor.[5] Currently, fees can be raised by a majority vote of the Legislature and under certain circumstances the Governor's signature is not required.

- **Limit the ability of the state to count spending toward the minimum funding guarantees for K-14 education.** Proposition 92 would prohibit the state from counting spending on new programs toward the Proposition 98 or Proposition 92 guarantees or reclassifying spending that did not count toward the guarantee in 2004-05 as Proposition 98 or Proposition 92 spending. Proposition 92 would specifically prohibit the state from counting spending on debt service for school bonds toward fulfillment of either of the minimum funding guarantees.[6]

- **Change the community college governance system.** Proposition 92 would establish the California Community College system in the state's Constitution. Currently, the

Proposition 98 and Community College Funding

Proposition 98, approved by California voters in November 1988, constitutionally guarantees a minimum level of funding for K-12 education; community colleges; and related child development, mental health, and developmental service programs. Proposition 98 states that K-12 education and community colleges shall receive the greater of a fixed percentage of state General Fund revenues (Test 1) or the amount they received in the prior year, adjusted for enrollment and inflation (Test 2 and Test 3). Under Test 2, the inflation factor is the percentage change in the state's per capita personal income from the preceding year and under Test 3, the inflation factor is the annual change in per capita state General Fund revenues plus 0.5 percent. In Test 2 and Test 3 years, change in enrollment is calculated based on average daily attendance in K-12 schools and county offices of education but not in community colleges.

Proposition 98 establishes a required funding level for programs falling under the guarantee as a whole. It does not create an "entitlement" to funds for any particular program or segment. Specifically, the Constitution does not currently guarantee a fixed amount of funding to either K-12 education or community colleges. The Legislature has the authority to allocate funding to individual programs through the budget.

community college system is authorized in statute and the Governor appoints the community college Board of Governors, who are subject to confirmation by the state Senate. Currently, the Board of Governors appoints the chancellor of the community college system and the Governor appoints other executive officers. Proposition 92 would increase the voting membership of the Board of Governors from 16 to 19 and authorize the Board of Governors to appoint, and set the compensation for, the chancellor and up to six deputy chancellors and vice chancellors, who would be exempt from civil service. The three additional members of the Board of Governors would be required to include a community college student, a current or former community college faculty member, and a nominee of the state organization representing community college chief executive officers. Under Proposition 92 the Governor would continue to appoint members of the Board of Governors.

- **Require changes to be approved by a four-fifths vote of the Legislature.** Parts of Proposition 92, including those regarding minimum funding levels and community college governance, could only be amended by a statute passed by a four-fifths vote of the Legislature and signed by the Governor.[7] Any amendments would be required to "further the act and shall be consistent with its purposes." This requirement, for example, would prohibit the Legislature from enacting changes that were counter to the measure's intention.

What Would a New Community College Funding Guarantee Mean for the Budget?

Proposition 92 would increase the minimum required funding level for K-14 education in years when the Proposition 98 guarantee is calculated using Test 2 or Test 3 and the measure's formula results in a larger enrollment growth factor than that currently required by Proposition 98. The Legislative Analyst projects that the new formula would require the state to spend approximately $300 million more for K-14 education per year from 2007-08 through 2009-10.[8] The additional funds would be allocated to community colleges and would not reduce the funds available for K-12 education. The costs would increase because Proposition 92's enrollment growth factor would be larger than that used to calculate the Proposition 98 guarantee.

Proposition 92 could reduce the funds available to other programs. Required increases in community college funding under Proposition 92 would occur despite the fact that the Legislative Analyst also projects that the state will face operating shortfalls of $8 billion in 2008-09 and 2009-10.[9] In tight fiscal years – including the foreseeable future – Proposition 92 would require the state to cut spending on programs other than K-14 education or raise revenues to provide additional funding for community colleges. This could reduce the funds available for programs such as health care, housing, and human services as well as the remainder of higher education, including student aid, the California State University, and the University of California.

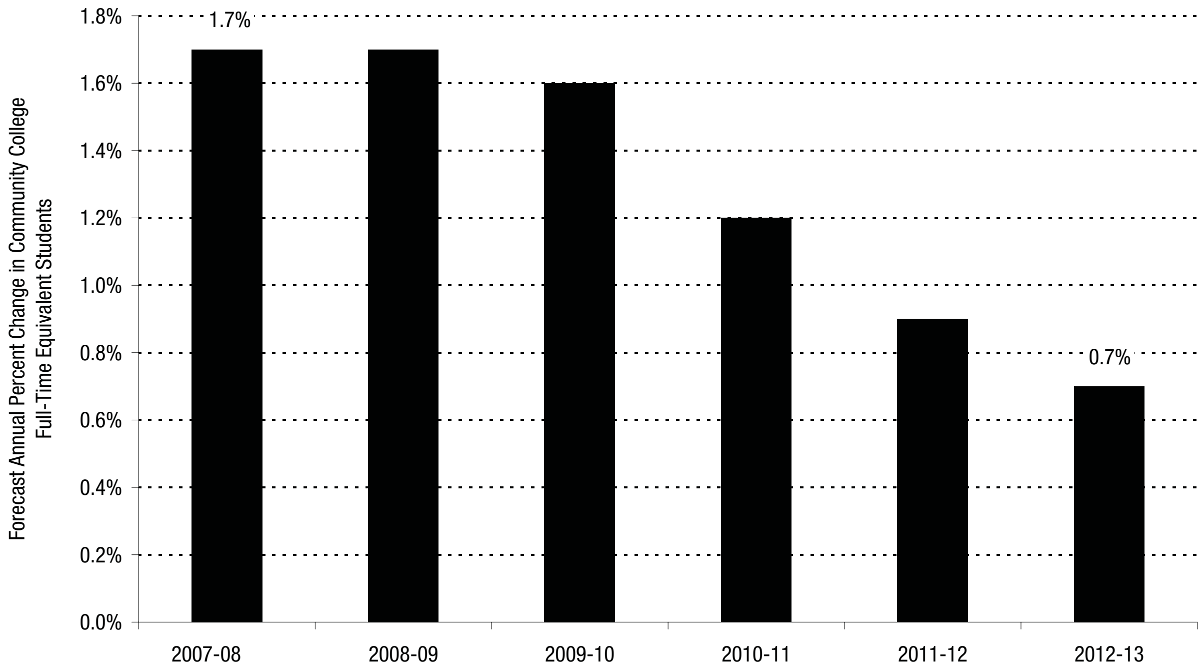
How Would Reducing Fees Affect Community College Funding?

Proposition 92 would reduce community college fees to $15 per unit per semester. As a result, the Legislative Analyst estimates that community college fee revenues would decrease by $71 million in 2007-08.[10] For most districts, the reduction in fee revenues would reduce general operating funds. Currently, fee revenues provide general purpose support for community colleges; however, they are not counted toward the Proposition 98 guarantee. While the new minimum funding guarantee likely

Community College Enrollment Growth Is Projected to Decline

The Legislative Analyst recently projected that annual growth in community college full-time equivalent students will decline from 1.7 percent in 2007-08 to 0.7 percent in 2012-2013.[11] The Legislative Analyst also projects negative growth rates in the college-age population in subsequent years.[12] In most years Proposition 92 would create a 1 percent minimum enrollment growth factor for community college funding even when the actual growth in community college enrollment is less than 1 percent.

Community College Enrollment Growth Is Projected to Decline Between 2007-08 and 2012-13



Source: Legislative Analyst's Office

would increase community college funding by an amount that would exceed the loss of fee revenues in Test 2 and Test 3 years, lower fees would reduce the funds available to community colleges in Test 1 years, when the new guarantee would not apply. Moreover, the new guarantee does not establish a specific funding level for any specific college or program; thus, the loss of fee revenues could create "winners and losers" among community colleges and programs.

Proposition 92, however, does require the state to reimburse a small number of relatively wealthy districts – so-called "basic aid" districts – for revenues lost as a result of the fee reduction.[13] In 2006-07, this guarantee would have applied to just three of the state's 72 community college districts – Marin, Mira Costa, and South Orange County. Proposition 92 would not have required the state to reimburse the remaining 69 college districts for lost fee revenues.

Proposition 92 Would Change Community College Governance

Currently, community college districts are governed by locally elected boards of trustees. The community college Board of Governors oversees the statewide system. Among its responsibilities, the Board of Governors coordinates statewide programs and appoints a chancellor who makes recommendations on policy matters.

Proposition 92 would change the number and composition of the voting membership of the community college system's Board of Governors. Currently, the Governor appoints, and the state Senate confirms, the 16 voting members of the Board of Governors. Six of the 16 members currently are required to be students, faculty, or employees of the community college system, or current or former elected members of local community college district governing boards. Proposition 92 would retain the Governor's authority to appoint the voting membership of the Board of Governors while increasing its size from 16 to 19. The initiative also would limit the pool of candidates from which the Governor could make appointments.[14] As a result, a majority of the Board of Governors would be present or former stakeholders in the community college system.

Proposition 92 also would change who appoints the executive officers of the community college system and how they are compensated. Currently, the Board of Governors appoints the chancellor of the community college system, although the Governor appoints up to six deputy and vice chancellors. Proposition 92 would increase the Board of Governors' authority by allowing it to appoint six deputy and vice chancellors as well as set their compensation.

Policy Issues Raised by Proposition 92

Does the Proposed Enrollment Growth Factor Accurately Measure the Need for Additional Funding?

In most years the state's current school funding guarantee is adjusted to reflect inflation and the change in K-12 enrollment. Currently, changes in enrollment under Proposition 98 can be either a positive or a negative number. In years when the new minimum community college funding level would be applied, the Proposition 92 guarantee would be calculated based upon inflation as well as an enrollment growth factor, which is defined as:

- The greater of the annual change in the number of Californians between the ages of 17 and 21 or the number of Californians between the ages of 22 and 25 and
- The prior year's unemployment rate minus 5 percent in years when the unemployment rate is above 5 percent.[15]

Proponents argue that these measures more accurately capture demand for community college services than current funding provides. In order to assess whether these factors are, in fact, a good measure, the CBP compared community college enrollment to components of the Proposition 92 enrollment growth factor during the period 1990-91 to 2005-06. This analysis found that:

- **Changes in the young adult population are an inconsistent measure of changes in community college enrollment.** Changes in the young adult population were greater than changes in full-time community college enrollment in 10 out of 16 years the CBP analyzed (Figure 1). Conversely, changes in full-time community college enrollment were greater than changes in the young adult population in six out of the 16 years. In 1992-93, 2001-02, and 2002-03, full-time community college enrollment grew at a substantially higher rate than the young adult population, and in four years (1993-94, 2003-04, 2004-05, and 2005-06) full-time community college enrollment decreased even though the young adult population increased. While Proposition 92 would increase funding for community colleges, the increases would not necessarily mirror changes in enrollment. In many years the young adult population likely would grow more rapidly than community college enrollment.

- **Proposition 92's unemployment measure has little relationship to community college enrollment.** Of the 15 years between 1990-91 and 2005-06 that Proposition 92 would have included the unemployment rate as part of the enrollment growth factor calculation, community college enrollment decreased in seven years and increased in eight years (Figure 2).[16] This finding suggests that high unemployment is not associated with a rise in community college enrollment.

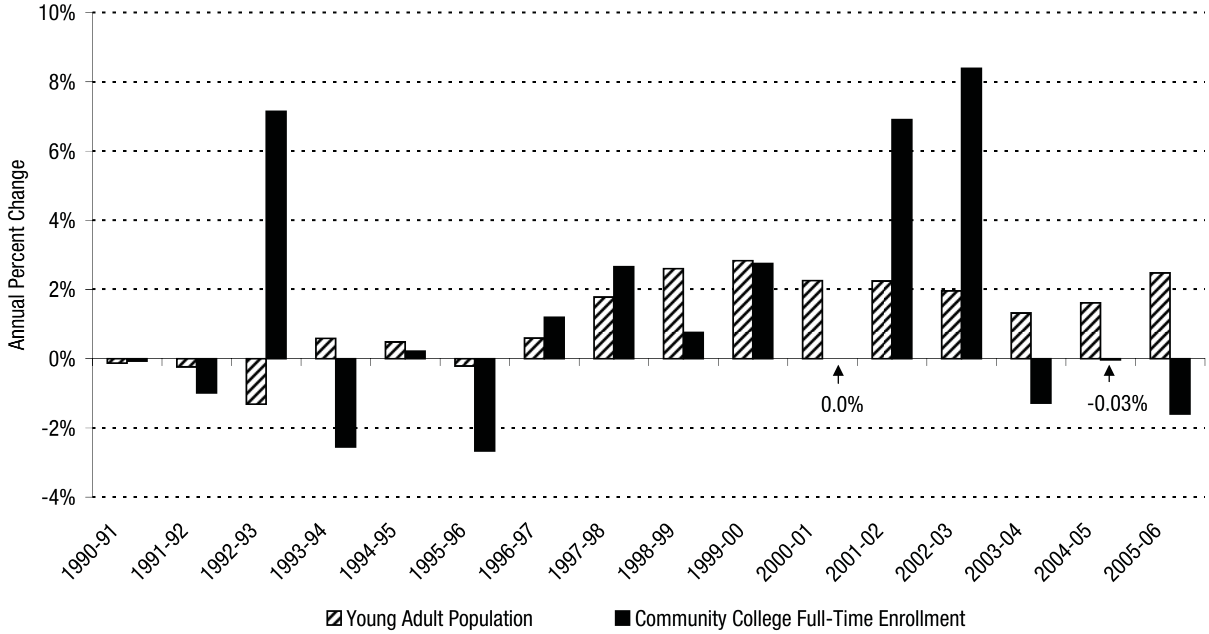
- **Proposition 92's enrollment growth factor generally overstates changes in community college enrollment.** In 13 out of the 16 years studied, Proposition 92's overall enrollment growth factor exceeded the change in full-time community college enrollment (Figure 3). Between 1990-91 and 2005-06, Proposition 92's enrollment growth factor averaged 3.1 percent per year, whereas actual full-time community college enrollment increased by an average of 1.3 percent per year.

Are Community College Fees Too High?

Proponents of Proposition 92 argue that lower community college fees would enable more students to attend community colleges. While affordability is often cited as a reason why some students fail to pursue a community college education, fees represent a small share of the overall cost of attending community college. Researchers estimate that fees represented about 5 percent of the cost of attendance for the average full-time community college student who did not live with his or her parents in 2004-05.[17] In the same year, housing represented 38 percent of estimated costs, the largest share of an average student's expenses.[18] In addition, many students pay no fees at all due to the state's commitment to waive fees for students with financial need.[19] In 2004-05, more than half (52 percent) of full-time students did not pay community college fees.[20] Furthermore, the Legislative Analyst notes that approximately one-quarter of all community college students do not pay any educational fees and that California's community college fees were the lowest in the nation in 2004-05.[21]

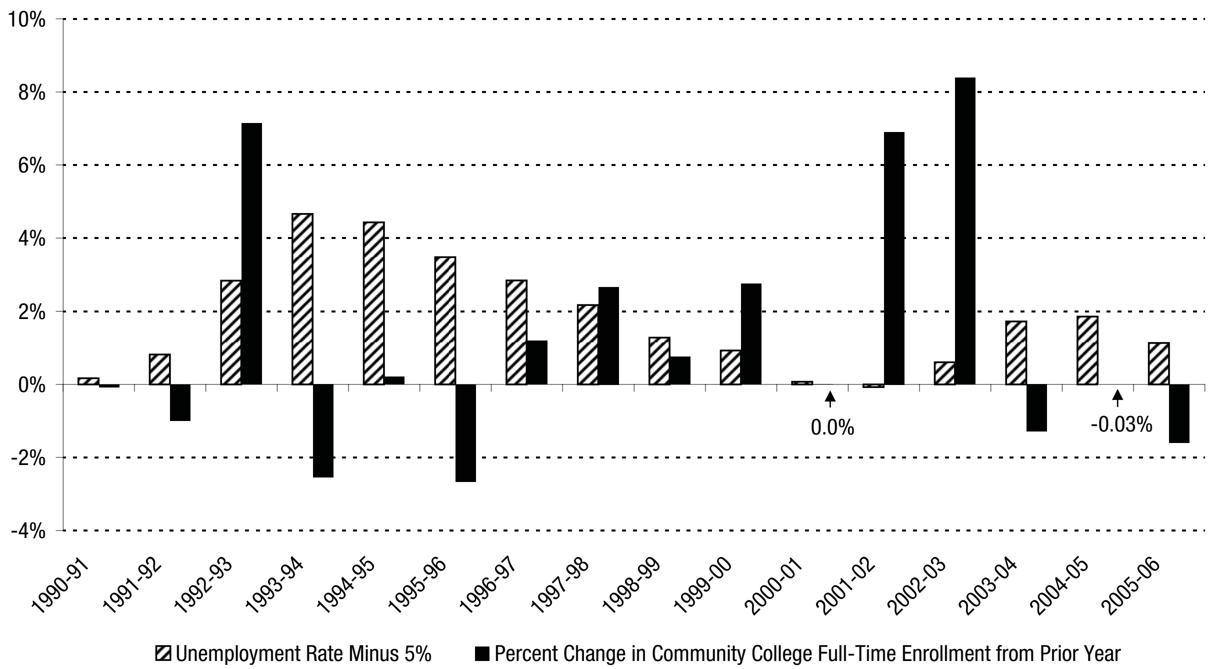
For students who pay fees, Proposition 92 would reduce the cost of attending community college. For a full-time community college

Figure 1: Changes in the Young Adult Population Do Not Correspond to Changes in Community College Enrollment



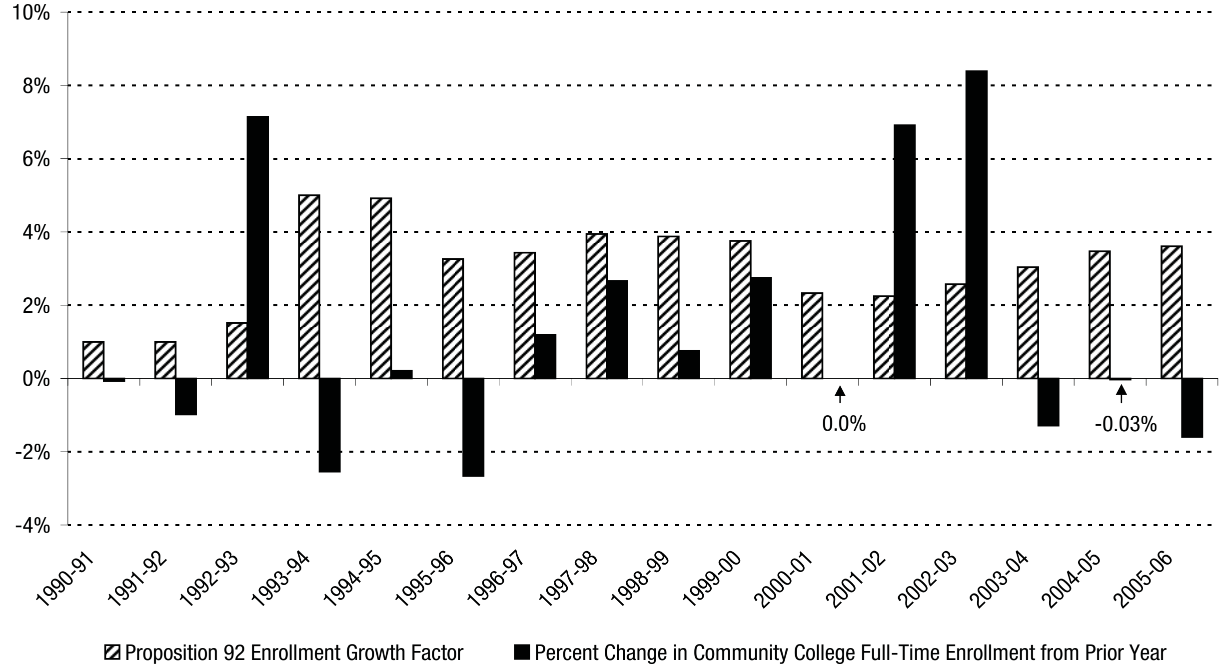
Note: Percent change in young adult population refers to the greater of the change in 17- to 21-year-olds or 22- to 25-year-olds between the prior two calendar years; percent change in community college enrollment refers to the change from the prior year.
Source: Department of Finance

Figure 2: High Unemployment Has Little Relationship to Changes in Community College Enrollment



Note: Unemployment rate is the first quarter of the prior fiscal year.
Source: Department of Finance and Employment Development Department

Figure 3: Proposition 92's Enrollment Growth Factor Generally Overstates Changes in Community College Enrollment



Source: Department of Finance and Employment Development Department

student, Proposition 92 would reduce fees from $600 to $450 per year. However, this would represent only a 1.0 percent reduction in the amount community college students who live off-campus pay, on average, for the cost of their education and living expenses.[22]

Should California "Lock In" More Spending at the Ballot Box?

Many analysts cite earmarking – the dedication of state revenues to specific programs and services at the ballot box – as a major factor contributing to California's fiscal problems. Proposition 92 would, in many years, require the state to increase the amount it spends on K-14 education by establishing a separate funding guarantee for community colleges. By doing so, Proposition 92 would create a new constitutional obligation without providing new or additional revenues to pay for the additional spending.

Over time a number of ballot measures have earmarked specific revenue sources – some new and some existing – for specific programs. Other ballot measures have established minimum funding levels or "locked in" the allocation of specific revenues among the state and local governments. To the extent an increasing share of the budget becomes "locked in" by these measures, lawmakers have fewer options for reducing spending during a budget shortfall.

Critics of ballot box budgeting note that granting constitutional protection from budget cuts to one type of spending may encourage advocates for other types of spending to seek similar protection. To the extent this trend continues, the Legislature would be left with limited discretion to address the current and future budget deficits. This discretion may be limited to the basic operations of government, such as the court system, and programs that lack the political support to generate constitutional protection.

Supporters' Arguments

Supporters argue that Proposition 92 would:

- Guarantee a minimum funding level for community colleges;
- Lower community college fees and limit future fee increases; and
- Guarantee a community college system independent from state politics.[23]

Opponents' Arguments

Opponents argue that Proposition 92 would:

- "Lock in" spending without providing a way to pay for increased demands on the budget;
- Increase spending on community colleges without requiring accountability; and
- Reduce community college fees that are already the lowest in the nation.[24]

Conclusion

Proposition 92 would establish a new minimum funding guarantee for community colleges. Voters should consider whether "locking in" a constitutional funding guarantee for community colleges would be the most appropriate use of limited state funds. Furthermore, voters should consider whether it is appropriate to reduce community college fees, limit future fee increases, and change the community college governance system.

Jonathan Kaplan prepared this Budget Brief with assistance from Jean Ross. The California Budget Project (CBP) neither supports nor opposes Proposition 92. This Budget Brief is designed to help voters reach an informed decision based on the merits of the issues. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

[1] Proposition 98, approved by California voters in November 1988, constitutionally guarantees a minimum level of funding for K-12 education and community colleges. In Test 2 or Test 3 years, the guarantee uses a growth factor that is calculated by adjusting the prior year's funding level to reflect inflation and changes in K-12 enrollment, where changes in enrollment are measured by the percent change in K-12 average daily attendance. Proposition 98 has been calculated using Test 2 or Test 3 in every year except for 1988-89, a Test 1 year, and 2004-05, when the guarantee was suspended. For a description of the Proposition 98 guarantee, see California Budget Project, *School Finance in California and the Proposition 98 Guarantee* (April 2006).

[2] The initiative states that if the enrollment growth factor "is less than one (1) percent and the percentage of residents of the state enrolled in community colleges is less than the average percentage of residents enrolled in community colleges in the preceding twenty years," the enrollment growth factor shall be 1 percent. This formula would establish a minimum enrollment growth factor of 1 percent in most years.

[3] Proposition 98's enrollment factor is a negative number in years when statewide K-12 enrollment, as measured by average daily attendance, has declined for three or more consecutive years.

[4] If fees are lower than $15 per unit per semester on the date Proposition 92 is approved by the voters, fees would remain at that level and any future fee increases would be calculated based on that level.

[5] Proposition 92 would not amend the state's Constitutional provisions with regard to how a bill becomes a law. Currently, stand-alone bills passed by the Legislature that are neither signed nor vetoed by the Governor within a required number of days become law. Thus, there is some question as to whether a court might find that Proposition 92's statutory provisions requiring the Governor to sign any fee increase into law are in conflict with the state's Constitution.

[6] Principal and interest on debt service currently do not count toward the minimum funding level for K-14 education.

[7] This requirement would not apply to the section of Proposition 92 that reduces community college fee levels or limits future fee increases. Under Proposition 92, any fee increase would require a two-thirds vote of the Legislature and the Governor's signature, and community college fees could be reduced by a statute that receives a majority vote of the Legislature and the Governor's signature.

[8] Legislative Analyst, "Proposition 92. Community Colleges. Funding. Governance. Fees. Initiative Constitutional Amendment and Statute," in Secretary of State's Office, *Official Voter Information Guide, February 5, 2008*, p.13. The Legislative Analyst projects that Proposition 98's Test 1 would be in effect beginning in 2010-11, in which case Proposition 92 would not apply. See Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 2007), p. 36.

[9] Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 2007), p. 5.

[10] Legislative Analyst's Office, letter to Attorney General Bill Lockyer (August 10, 2006), downloaded from http://www.lao.ca.gov/ballot/2006/060672.htm on September 19, 2007.

[11] Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 2007), p. 36.

[12] Legislative Analyst's Office, *California's Fiscal Outlook: LAO Projections 2007-08 Through 2012-13* (November 2007), p. 41.

[13] Basic aid districts are those that receive more revenue from local property taxes and community college fees than they would from the general allocation provided to colleges by the state budget.

[14] The initiative states that the Governor must appoint 10 members of the Board of Governors from the following groups: current or former elected members of local community college district governing boards, community college students, current or former faculty members, and current or former employees of the community college system. The initiative further limits whom the Governor can appoint to the Board of Governors by allowing representatives of each group to nominate candidates. For example, current or former members of community college district governing boards would have to be nominated by a statewide organization representing locally elected community college trustees, and current or former faculty members could only be nominated by the community college Academic Senate.

[15] Proposition 92's enrollment growth factor would be the sum of the following: the greater of the percentage change in the population of California residents between 17 and 21 years of age or the percentage change in the population of California residents between 22 and 25 years of age from the second preceding year to the preceding year and the prior year's third quarter unemployment rate less 5 percent. The enrollment growth factor would be capped at 5 percent and could be no less than 1 percent as long as the percentage of state residents enrolled in community colleges is less than the average percentage of residents enrolled in community colleges in the preceding 20 years.

[16] Proposition 92 would not have used the unemployment rate to calculate the enrollment growth factor in 2001-02 because the rate was less than 5 percent. One of the eight years that community college enrollment increased was 2000-01.

[17] William Zumeta and Deborah Frankle, *California Community Colleges Making Them Stronger and More Affordable* (The National Center for Public Policy and Higher Education: March 2007), p. 2.

[18] William Zumeta and Deborah Frankle, *California Community Colleges Making Them Stronger and More Affordable* (The National Center for Public Policy and Higher Education: March 2007), p. 8.

[19] Government Code, Section 76300(g).

[20] William Zumeta and Deborah Frankle, *California Community Colleges Making Them Stronger and More Affordable* (The National Center for Public Policy and Higher Education: March 2007), p. 3.

[21] Legislative Analyst, "Proposition 92. Community Colleges. Funding. Governance. Fees. Initiative Constitutional Amendment and Statute," in Secretary of State's Office, *Official Voter Information Guide, February 5, 2008*, p. 14 and Legislative Analyst's Office, *A Primer: Funding Higher Education* (June 2005), pp. 28-29.

[22] CBP analysis of California Student Aid Commission data. Assumes that full-time students take 15 units per semester.

[23] Secretary of State's Office, "Proposition 92" *(Official Voter Information Guide, February 5, 2008)*, p. 16, downloaded from http://www.sos.ca.gov/elections/bp_02052008_pres_primary/arguments_92.pdf on November 29, 2007.

[24] Secretary of State's Office, "Proposition 92" *(Official Voter Information Guide, February 5, 2008)*, p. 17, downloaded from http://www.sos.ca.gov/elections/bp_02052008_pres_primary/arguments_92.pdf on November 29, 2007.