

March 28, 2006

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

Attention: Ms. Patricia Galvan
Initiative Coordinator

Dear Attorney General Lockyer:

Pursuant to Election Code Section 9005, we have reviewed the proposed constitutional and statutory initiative regarding community colleges (File No. SA2006RF0019, Amendment #2-S).

Background

The California Community Colleges (CCC) are institutions of higher education that serve about 2.5 million students annually. The community college system is comprised of 109 campuses operated by 72 districts that are governed by locally elected boards of trustees. The system offers academic, vocational, and recreational programs at the lower division level for recent high school graduates and any other adults who can benefit from instruction. Community colleges also operate programs to promote economic development and provide adult education.

The Board of Governors (BOG) of CCC oversees the system. Its 16 voting members and one nonvoting member are appointed by the Governor. The BOG appoints a Chancellor who brings recommendations to the board. These recommendations are developed in consultation with representatives of community college organizations.

About two-thirds of the funding that supports community college programs is state General Fund support and local property tax revenues that are counted towards the state Proposition 98 spending total. Proposition 98, which was subsequently amended by Proposition 111, establishes a minimum annual funding level for K-14 schools (K-12 schools and community colleges). Each year, the Proposition 98 formula establishes a new K-14 minimum funding level by increasing the prior-year's funding level by the growth in K-12 attendance and growth in the economy. The exact amount the state is required to spend on Proposition 98 each year depends on specific calculations or "tests."

Test 1 is based on a given percentage of General Fund tax revenues (currently about 41 percent) and Test 2 is based on growth in state personal income and K-12 attendance. In a Test 3 year (based on growth in per capita General Fund revenues and K-12 attendance) or when the Legislature suspends the minimum guarantee altogether, the state provides less growth in K-14 funding than would be required under Test 1 or Test 2. This funding gap is called the maintenance factor. Proposition 98 contains a mechanism to gradually build the maintenance factor back into the funding base.

Proposal

This measure amends the state Constitution and state law in a variety of ways to change community college funding requirements, fee levels, and governance.

Establishes a Minimum Annual Funding Level for Community Colleges. This measure changes the Proposition 98 formula by establishing separate funding guarantees for the community college system and for the K-12 system. Beginning in 2007-08, the total amount of General Fund and local property tax revenues allocated to school districts and community colleges under Test 2 and Test 3 would be calculated separately for each system. (Test 1 would continue to be calculated as one number covering both K-12 and community colleges.) In Test 2 and Test 3 years, the minimum funding guarantee for K-12 schools would increase according to the existing Proposition 98 formula, based on growth in the economy and K-12 attendance. For community colleges districts, however, the minimum funding guarantee would increase based on economic growth and changes in *the college-age population*, as well as other specific factors.

Specifically, starting in 2007-08, the community colleges' enrollment growth factor would be the sum of the following percentages:

- The greater of (1) the percentage change in the population of California residents between 17 and 21 years of age or (2) the percentage change in the population of California residents between 22 and 25 years of age.
- The prior year's unemployment rate, less 5 percent. (This factor would be applicable only when the unemployment figure was above 5 percent.)

Irrespective of the above calculations, the community college growth factor is capped at 5 percent in any year. In addition, the growth factor cannot be less than 1 percent so long as the percentage of state residents enrolled at community colleges is less than the average enrollment rate over the preceding 20 years.

Establishes Share of Maintenance Factor for Community Colleges. Community colleges would receive 10.46 percent of any funds the Legislature allocates as repayment of the Proposition 98 maintenance factor that exists at the time this measure

becomes effective. This is roughly the percentage of total Proposition 98 revenues that was allocated to community colleges in 2005-06.

Reduces and Caps Education Fees for Students. The measure reduces the per unit fee to \$20 or, if it is lower, the fee existing upon enactment of the measure. The current fee is \$26 per unit. In addition, the measure caps annual fee increases at 10 percent or, if it is lower, the percentage change in per capita personal income in California. It also specifies that any changes to the fee shall be effective for the fall academic term that follows at least 60 days after the fee change is approved. The measure does not require any fee increase, however.

Exempts Executive Officers of the BOG from Civil Service. The measure amends the State Constitution to exempt executive officers of the BOG from state civil service regulations. It also authorizes the Board of Governors (rather than the Governor) to appoint a Chancellor and up to six deputy chancellors and vice chancellors as its executive officers.

Establishes Community Colleges in State Constitution. The state Constitution currently mentions the community colleges in various financial contexts, but does not formally establish or define the community colleges. (This is done instead through state statute.) This measure more formally recognizes the community college system in the state Constitution. For example, it adds to the Constitution a statement establishing the community colleges as part of the "Public School System," and requires the Legislature to provide "sufficient funding" for the community colleges in the annual budget act.

The measure also establishes the community colleges BOG in the Constitution. In doing this, it makes a number of changes to the composition of the board, including an increase in its membership from 16 voting members to 19 voting members. The measure also provides the BOG with the authority to employ and set the compensation for its executive officers.

Fiscal Effect

This measure would in effect split the existing Proposition 98 funding guarantee for K-14 schools into one guarantee for K-12 schools and a separate guarantee for community colleges. Total required funding would be higher under this measure than under current law in any year that Test 2 or Test 3 is in effect and growth in the initiative's new community college enrollment factor exceeds growth in K-12 attendance. We project that both conditions will apply for the next few years. Specifically, we project this measure would result in an increase in the minimum funding requirement for K-14 schools of about \$100 million in 2007-08 and more than \$300 million in both 2008-09 and 2009-10. (The actual increase in the minimum funding levels required by this initiative would depend on various factors, including demographic growth and the performance of the economy.) If the state had otherwise spent at the minimum required funding level under

current law, the increases in the funding guarantee under this measure would translate into increases in actual spending.

Starting in 2010-11, we project that Test 1 will be in effect. Under Test 1, which is not affected by this measure, the state must provide a certain percentage of General Fund revenues to K-14 education. The measure does not stipulate how Proposition 98 funding would be allocated between community colleges and K-12 schools in Test 1 years. (While existing statute requires that community colleges receive about 11 percent of all Proposition 98 revenues, the state has suspended this law each year since 1991.) For this reason, longer-term changes to community college funding are unclear.

Reduction in Fee Revenue Would Partly Offset Proposition 98 Increases for Districts. Assuming the per unit fee were reduced from \$26 to \$20 in 2007-08, we estimate community colleges would collect \$85 million less in student fee revenue. In subsequent years, the amount of lost fee revenue would depend on state actions regarding fees under this measure and on how the state would have dealt with fees absent the measure. For community colleges, the fee revenue reductions would partly offset the potential spending increases resulting from the revised minimum guarantee.

Summary

This measure would have the following major fiscal effects:

- Potential increases in state spending on K-14 education of around \$100 million in 2007-08 and over \$300 million in both 2008-09 and 2009-10, with unknown impact annually thereafter.
- Annual loss of fee revenues to community colleges of about \$85 million in 2007-08, with unknown impacts annually thereafter.

Sincerely,

Elizabeth G. Hill
Legislative Analyst

Michael C. Genest
Director of Finance