DESCRIPTION

The state would create a rainy day fund for Higher Education. Any annual increase in state general fund support to the CSU and UC above a certain percentage amount would be placed into a California Higher Education Opportunity Fund. The California Citizens' Commission on Higher Education recommended a 4% threshold, excluding funds for enrollment increases and one-time investments for equipment and deferred maintenance. Thus, any year-to-year increase above 4% would go into the fund. The UC and CSU would be allowed to dip into the Opportunity Funds if their budgets fell or increased by less than 4%.

CURRENT EXAMPLES

Many states have rainy day funds. New Mexico established a Land Grant Permanent Fund after receiving lands from the federal government at the turn of the last century. Revenue generated from oil, gas, other mining, or the sale of land is placed in the Permanent Fund, which is primarily used to benefit public education. Constitutionally, the New Mexico Legislature is prohibited from spending the principal on the fund.

Several states have funds specifically dedicated to education. Alabama, Vermont, and Montana have Education Trust Funds. These primarily serve as a means of equalizing education funding across districts, although they also have some equalizing effect across time.

Education Trust Funds have been debated in Missouri, Oregon, and Washington.

STATE POLICY PRIORITIES TRADE-OFF

- This option would provide institutions predictability in state revenues and thus reduce the "boom and bust cycle" to higher education funding. Smoother and more predictable funding will lead to more moderate, gradual and predictable fee increases, increasing affordability. More stable state revenues should also help institutions to improve instructional quality.

- The trade-off is that this option will reduce the flexibility the Legislature has in appropriating funds to the CSU and UC. A trust fund may even lead to a decrease in total state support to the UC and CSU. First, the fund may provide disincentives to increase Higher Education expenditures beyond the threshold percentage. Second, and more importantly, the Legislature may try to raid the fund in bad times for purposes other than higher education, as occurred with tidelands oil revenues and off-road vehicle license fees.
GENERAL FUND IMPACT

- Designed to be revenue neutral, at least over the medium to long-term.
- As note above, may provide disincentives to increase Higher Education expenditures beyond the threshold limit.

TECHNICAL FEASIBILITY

- Short of placing the Fund in the state constitution through a proposition, how can we keep a Higher Education Trust Fund safe from raids in bad budgetary times? In other words, is it feasible for the Legislature to protect funds from itself? The Citizens' Commission argues that with three safeguards, the trust funds could be safe from the Legislature: (1) funds must be "vested" with the segments; (2) funds should be held in state treasury with strict fiduciary controls; (3) opportunity funds must not be used to supplant on-going appropriations.