

WORKING PAPER

**FINANCIAL OPTIONS FOR RESTORING QUALITY AND
ACCESS TO PUBLIC HIGHER EDUCATION IN CALIFORNIA**

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EXECUTIVE SUMMARY

It is widely recognized that large reductions in state funding and sizeable increases in student fees have eroded quality and accessibility in California's three-segment system of public higher education: the University of California, California State University and California Community Colleges. But, until now, no one has estimated what it would cost – through restored taxpayer funding or tuition increases – to restore the system's historic quality while accommodating the thousands of qualified students excluded by recent budget cuts. This working paper considers state funding, student fees and accessibility to answer three basic questions about the public higher education system in California:

#1. How much would it cost taxpayers to push the “reset” button for public higher education, restoring access and quality (measured as per-student state support) while rolling back student fees to 2000-01 levels, adjusted for inflation?

Answer: It would cost taxpayers \$4.643 billion.

#2. Absent restoration of taxpayer support for public higher education, how much more would student fees need to be increased to restore the level of per-student resources available in 2000-01, at current enrollment levels?

Answer: UC fees would have to increase above currently approved levels by \$7,398 (to a total of \$18,948), CSU fees by \$1,863 (to \$6,756) and CCC fees by \$72 (to \$852).

#3. If the Governor and Legislature were to decide to push the “reset” button, — reinstating the quality and accessibility standards of the Master Plan by returning state support and student fees to 2000-01 levels, adjusted for inflation — what would it cost the typical California taxpayer?

Answer: It would cost the median California taxpayer less than \$32.

Introduction

It is widely recognized that beginning with Governor Gray Davis' 2001-2 budget year and accelerating with Governor Arnold Schwarzenegger's Compact for Higher Education,¹ higher education in California has suffered large reductions in state funding. These reductions have effectively abandoned the California Master Plan for Higher Education² promise of high quality, low cost public higher education for all, through an articulated system consisting of the University of California, California State University and California Community Colleges. Funding has fallen more quickly in California than in the United States as a whole (Figure 1a).

At the same time, fees in all three sectors have increased much faster in California than in the US as a whole (Figure 1b). While these fee increases have generally been framed as responses to the State's immediate budgetary problems, they are also congruent with an explicit public policy choice, purportedly based on free market principles, to shift higher education from a public good provided by society as a whole through taxation to being a private good purchased through user fees.

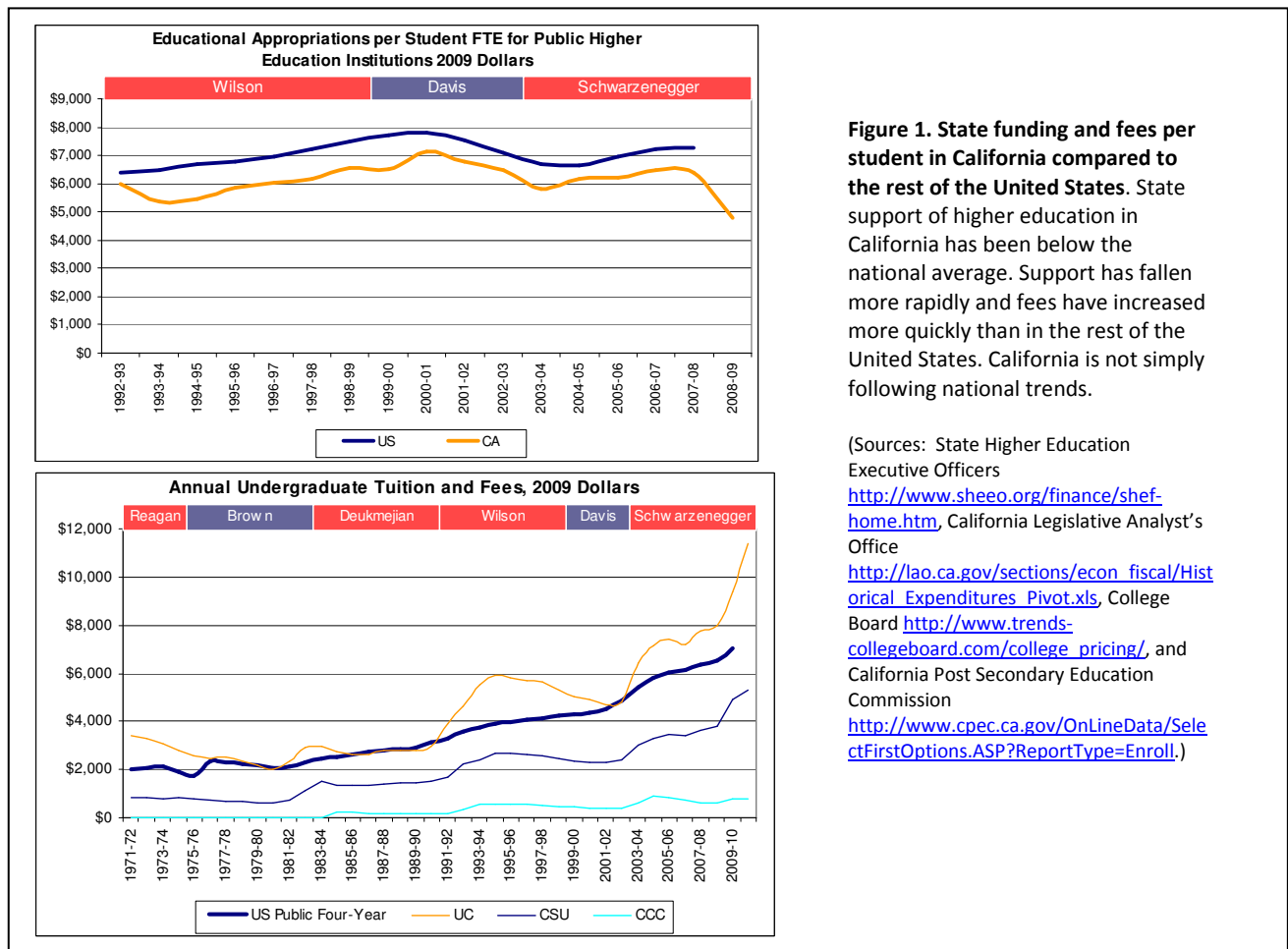


Figure 1. State funding and fees per student in California compared to the rest of the United States. State support of higher education in California has been below the national average. Support has fallen more rapidly and fees have increased more quickly than in the rest of the United States. California is not simply following national trends.

(Sources: State Higher Education Executive Officers <http://www.sheeo.org/finance/shef-home.htm>, California Legislative Analyst's Office http://lao.ca.gov/sections/econ_fiscal/Historical_Expenditures_Pivot.xls, College Board http://www.trends-collegeboard.com/college_pricing/, and California Post Secondary Education Commission <http://www.cpec.ca.gov/OnLineData/SelectFirstOptions.ASP?ReportType=Enroll>.)

¹ The full text of the Compact is at <http://budget.ucop.edu/2005-11compactagreement.pdf>.

² The full text of the Master Plan is at <http://www.ucop.edu/acadinitt/mastplan/MasterPlan1960.pdf>. For a discussion of the history and current status of the Master Plan, see Legislative Analyst Office, "The Master Plan at 50: Assessing California's Vision for Higher Education," November, 2009, available at <http://www.lao.ca.gov/laoapp/PubDetails.aspx?id=2141>.

Table 1. Public Funding and Funding Shortfalls for California Public Higher Education to Return Quality and Fees to 2000-01

	UC						CSU						CCC					Total State Funds (mil)
	Student FTE	Fees		State Funds per Student	Total Funds per Student	State General Funds (mil)	Student FTE	Fees		State Funds per Student	Total Funds per Student	State General Funds (mil)	Student FTE	Fees	State Funds per Student	Total Funds per Student	State General Funds (mil)	
		Gross	Net*					Gross	Net*									
2000-01 (2001 dollars)	181,034	\$3,964	\$2,656	\$17,630	\$20,286	\$3,192	313,020	1,839	\$1,232	\$7,900	\$9,133	\$2,473	965,773	330	\$2,844	\$3,174	\$2,747	\$8,411
2000-01 (2009 dollars)	181,034	\$4,924	\$3,299	\$21,900	\$25,200	\$3,965	313,020	\$2,284	\$1,531	\$9,814	\$11,345	\$3,072	965,773	410	\$3,533	\$3,943	\$3,412	\$10,449
2009-10 (actual)	210,816	\$11,550	\$7,739	\$12,505	\$20,243	\$2,636	342,893	4,893	\$3,278	\$6,818	\$10,097	\$2,338	1,208,859	780	\$3,091	\$3,871	\$3,736	\$8,710
Funds required for 2000-01 level of state support per student at 2000-01 fees (2009 dollars)	210,816	\$4,924	\$3,299	\$21,900	\$25,200	\$4,617	342,893	2,284	\$1,531	\$9,814	\$11,345	\$3,365	1,208,859	410	\$3,533	\$3,943	\$4,271	\$12,253
Shortfall						\$1,981						\$1,027					\$535	\$3,543
Qualified students denied admission	2,300			\$21,900		\$50	40,000			\$9,814		\$393	186,000		\$3,533		\$657	\$1,100
Shortfall						\$2,031						\$1,420					\$1,192	\$4,643

*Assuming 33 percent of fees returned to aid

This shift in public policy is stated in the 2004 Compact on Higher Education between Governor Schwarzenegger and the UC President and CSU Chancellor: “In order to help maintain quality and enhance academic and research programs, UC will continue to seek additional private resources and maximize other fund sources available to the University to support basic programs. CSU will do the same in order to enhance the quality of its academic programs.” Until this point, the state was viewed as the primary source of support for “basic programs” with private sources being used for additional initiatives.

This working paper seeks to tie together the three elements of change: drops in state funding, fee increases, and declines in quality (measured as per student expenditures). It takes as its base year 2000-01, the last year that higher education was reasonably financially intact before the recent large fee increases. This paper addresses four questions:

1. How much would it cost taxpayers to push the “reset” button for public higher education, restoring access and quality (measured as per-student state support) while rolling back student fees to 2000-01 levels, adjusted for inflation?
2. Absent restoration of taxpayer support for public higher education, how much more would student fees need to be increased to restore the level of per-student resources available in 2000-01, at current enrollment levels?
3. If the Governor and Legislature were to decide to push the “reset” button, — reinstating the quality and accessibility standards of the Master Plan by returning state support and student fees to 2000-01 levels, adjusted for inflation — what would it cost the typical California taxpayer?

Answer No. 1: Returning quality and fees to the level of 2000-01 would cost taxpayers \$4.643 billion.

By restoring state funding to 2000-01 levels, it would be possible to return student fees to the levels of 2000-01 (adjusted for inflation) while maintaining quality (measured as total per student funding). Specifically, annual fees at UC would be rolled back to \$4,924 (from \$11,550), for CSU to \$2,284 (from \$4,893) and CCC to \$410 (from \$780).

Table 1 shows the calculations that produced this number.³ We begin with the numbers of full time equivalent (FTE) students in each of the three sectors of California higher education and total state general funds supplied to each sector,⁴ then divide one by the other to obtain the state funding per student FTE. Next we adjust the 2000-01 dollar amounts for inflation to their equivalents for 2009-10 and subtract the actual levels of funding per student currently enrolled in each sector to determine the funding shortfall compared to 2000-01.

Restoring full state funding for *existing* enrollments would cost a total of \$3.543 billion.

These calculations do not tell the whole story, however, because all three sectors have responded to resource cuts by admitting fewer students than they would under the Master Plan. UC has reduced enrollment by 2,300 students,⁵ CSU has reduced enrollment by 40,000 students,⁶ and the CCCs have

³ The spreadsheet used to obtain all the results in this working paper is available at <http://keepcaliforniaspromise.org/?p=553>.

⁴ FTE data comes from the California Postsecondary Education Commission available at <http://www.cpec.ca.gov/OnLineData/SelectFirstOptions.ASP?ReportType=Enroll>, state expenditure data comes from the Legislative Analyst’s Office available at http://lao.ca.gov/sections/econ_fiscal/Historical_Expenditures_Pivot.xls.

⁵ UC cut enrollment 2,300 in 2009-10 and plans to cut enrollment a further 2,300 in 2010-11, see: <http://www.universityofcalifornia.edu/regents/regmeet/nov09/f3.pdf>

⁶ According to <http://www.calstate.edu/PA/News/2009/enrollment-budget.shtml> CSU is curtailing enrollments by “more than 40,000 students.”

reduced enrollment by 186,000 FTE students.⁷ We assume that providing funding for these students, in addition to current enrollments, would restore full access to each segment of California’s public higher education system. The cost to support full enrollment at 2000-01 levels of state per-student support would be \$4.643 billion.

Student fees would return to their 2000-01 levels, adjusted for inflation: \$4,924 for UC, \$2,284 for CSU and \$410 for CCC.

Answer No. 2: Restoring the public higher education system for all students who meet the standards outlined in the Master Plan *only by increasing student fees* would require raising UC fees an additional \$7,398 (to a total of \$18,948), CSU fees by \$1,863 (to \$6,756) and CCC fees by \$72 (to \$852).

Table 2 outlines the calculations that led to these numbers. The overall approach is the same as in Table 1, except that rather than restoring per student total expenditures by increasing state support, it is done by increasing student fees. Calculations for UC and CSU assume that it continues its “high fee high aid” policy of allocating 33 percent of fees to student aid.⁸ The total funding per student used as a measure of quality is the sum of state funding and net tuition and fees after deleting the fee amounts returned to aid.

These calculations assume no further cuts in state support for higher education. For each additional 10 percent cut in state support, tuition and fees at UC would have to be increased by \$1,866, CSU by \$1,018 and CCC by \$309 in order to maintain quality at current enrollment levels.

Table 2. Additional Tuition Increases Needed to Restore 2000-01 Expenditure Levels per Currently Enrolled Student at Current State Funding Levels											
	UC				CSU				CCC		
	State Funds	Tuition & fees		Total Funding	State Funds	Tuition & fees		Total Funding	State Funds	Tuition & fees	Total Funding
		Gross	Net*			Gross	Net*				
2000-01 (2001 dollars)	\$17,630	\$3,964	\$2,656	\$20,286	\$7,900	\$1,839	\$1,232	\$9,133	\$2,844	\$330	\$3,174
2000-01 (2009 dollars)	\$21,900	\$4,924	\$3,299	\$25,200	\$9,814	\$2,284	\$1,531	\$11,345	\$3,533	\$410	\$3,943
Fall 2009	\$12,505	\$9,390	\$6,291	\$18,796	\$6,818	\$4,893	\$3,278	\$10,097	\$3,091	\$780	\$3,871
Total tuition and fees required to return to 2000-01 quality levels	\$12,505	\$18,948	\$12,695	\$25,200	\$6,818	\$6,756	\$4,527	\$11,345	\$3,091	\$852	\$3,943
Additional tuition and fees to return to 2000-01 quality levels (2009)		\$9,558				\$1,863				\$72	
Fall 2010 (with latest fee hikes)	\$12,505	\$11,550	\$7,739	\$20,243	\$6,818	\$4,893	\$3,278	\$10,097	\$3,091	\$780	\$3,871
Total tuition and fees required to return to 2000-01 quality levels	\$12,505	\$18,948	\$12,695	\$25,200	\$6,818	\$6,756	\$4,527	\$11,345	\$3,091	\$852	\$3,943
Additional tuition and fees to return to 2000-01 quality levels (2010)		\$7,398				\$1,863				\$72	

*Assuming 33 percent of fees returned to aid

⁷ According to http://www.cpec.ca.gov/Agendas/Agenda0909/Item_07.pdf CCC enrollment has been reduced by 186,000 FTE students. The estimated increases in state funding or fees that are computed based on this estimate are higher than would be necessary to the extent that some of these students are the 2,300 denied admission at UC or the 40,000 denied admission at CSU. Restoring access to UC and CSU would reduce the demands placed on CCC.

⁸ See page 16 of <http://www.assembly.ca.gov/acs/committee/c2/hearing/2005/april%2020%202005-uc%20csu-%20public-%20cm.doc>.

Answer No.3: Restoring public higher education while returning student fees to 2000-01 levels would cost the median California taxpayer an additional \$32.

Table 3 outlines these calculations. We obtained the distribution of taxes paid by adjusted gross income from the Franchise Tax Board for 2006,⁹ the most recent year available, then allocated the \$4.643 billion it would cost to restore public higher education to 2000-01 proportionately across all taxpayers. Note that the categories are for *tax returns*, not individuals, so the results are for joint returns (families), individual returns, partnerships and Subchapter S corporations, as well as corporations that pay income taxes.

For the median personal income taxpayer, restoring the entire system while rolling back student fees to what they were a decade ago would cost less than \$32 next April 15.¹⁰ For the two-thirds of state taxpayers with taxable incomes below \$60,000, it would cost \$86 or less. For the 12 million state taxpayers with AGI below \$100,000 (81 percent), it would be \$242 or less.

Income taxes are presented as one option, simply to illustrate the cost for typical taxpayers. Personal and corporate income taxes are only 65 percent¹¹ of all state revenues; part of the \$4.643 billion could be allocated to other taxes, which would lower the effect on individual income tax payers. We also assume that the costs would be distributed uniformly across all tax categories. If the cost were allocated more or less progressively, that would also affect impact on individual taxpayers.

Limitations

The calculations outlined in this working paper are all based on publicly available numbers and do not benefit from models of enrollment dynamics that may be maintained by state agencies or the three segments of the California public higher education system. We assume that there would be no change in enrollment between Fall 2009 and Fall 2010 under our base case. The estimates do not account for price elasticity: as tuition and fees increase, some students decide not to attend public higher education in California, which will reduce student demand.

We assume, based on public statements and documents, that increasing UC enrollment by 2,300, CSU by 40,000 and CCCs by 186,000 would allow every interested student to attend an appropriate institution of public higher education in California. As a result, the \$4.643 billion estimated total cost (and the corresponding \$32 median tax increase) may be an upper bound estimate of the actual cost. At the same time, the \$3.543 billion shortfall based on current enrollments (Table 1), which corresponds to a median tax increase of \$24, probably underestimates the cost. The true cost — and impact on taxpayers — is likely to be between these two estimates: \$24-32.

Finally, the distribution of taxes is based on 2006, the most recent time for which data are available; this distribution will be slightly different in 2010.

These calculations will be updated and subsequent versions of this Working Paper will be released as better data become available.

⁹State income tax revenue by adjusted gross income class: http://www.ftb.ca.gov/aboutftb/Tax_Statistics/AGIC.shtml and state income tax revenue from corporations: http://www.ftb.ca.gov/aboutftb/Tax_Statistics/Corporations.shtml.

¹⁰ For comparison, in 2007 the statewide median income for all personal income tax returns rose to \$35,646, while the median income listed on joint returns was \$68,797. Source: Franchise Tax Board, available at http://www.ftb.ca.gov/aboutftb/press/2009/release_25.shtml.

¹¹ Governor's Budget Revenue Estimates: <http://www.ebudget.ca.gov/pdf/BudgetSummary/RevenueEstimates.pdf>.

Table 3: Additional State Income Tax Needed to Restore California Public Higher education to 2000-1 Funding Level, by Taxpayer's Adjusted Gross Income*

Adjusted gross income class	Number of returns	Total Tax Liability (\$ 1,000s)	Liability per return (average)	Additional amount per return to restore public higher education	Cumulative percent of all returns
Negative	171,094	\$ 424	\$2.48	\$0.21	1%
Zero	786	0	\$0.00	\$0.00	1%
\$ 1 To \$ 999	125,948	3	\$0.03	\$0.00	2%
1,000 To 1,999	143,631	141	\$0.98	\$0.08	3%
2,000 To 2,999	170,754	337	\$1.97	\$0.16	4%
3,000 To 3,999	201,838	785	\$3.89	\$0.32	5%
4,000 To 4,999	202,413	2,246	\$11.10	\$0.92	7%
5,000 To 5,999	200,655	1,535	\$7.65	\$0.64	8%
6,000 To 6,999	210,740	1,927	\$9.14	\$0.76	9%
7,000 To 7,999	224,666	2,660	\$11.84	\$0.99	11%
8,000 To 8,999	221,497	1,984	\$8.96	\$0.75	12%
9,000 To 9,999	217,836	1,582	\$7.26	\$0.61	14%
10,000 To 10,999	224,975	2,089	\$9.28	\$0.77	15%
11,000 To 11,999	221,941	2,929	\$13.20	\$1.10	17%
12,000 To 12,999	236,548	3,534	\$14.94	\$1.25	18%
13,000 To 13,999	220,525	5,053	\$22.91	\$1.91	20%
14,000 To 14,999	235,440	5,332	\$22.65	\$1.89	21%
15,000 To 15,999	223,704	6,912	\$30.90	\$2.58	23%
16,000 To 16,999	249,008	10,251	\$41.17	\$3.43	25%
17,000 To 17,999	239,825	9,661	\$40.28	\$3.36	26%
18,000 To 18,999	227,723	10,186	\$44.73	\$3.73	28%
19,000 To 19,999	215,719	13,272	\$61.52	\$5.13	29%
20,000 To 20,999	220,137	15,841	\$71.96	\$6.00	31%
21,000 To 21,999	196,335	17,195	\$87.58	\$7.30	32%
22,000 To 22,999	212,401	22,153	\$104.30	\$8.69	33%
23,000 To 23,999	199,701	24,224	\$121.30	\$10.11	35%
24,000 To 24,999	200,247	24,998	\$124.84	\$10.40	36%
25,000 To 25,999	201,881	29,511	\$146.18	\$12.18	37%
26,000 To 26,999	192,690	29,274	\$151.92	\$12.66	39%
27,000 To 27,999	191,834	31,986	\$166.74	\$13.90	40%
28,000 To 28,999	191,879	39,475	\$205.73	\$17.15	41%
29,000 To 29,999	173,183	37,025	\$213.79	\$17.82	42%
30,000 To 30,999	168,069	41,522	\$247.05	\$20.59	43%
31,000 To 31,999	174,945	48,891	\$279.46	\$23.29	45%
32,000 To 32,999	167,879	50,036	\$298.05	\$24.84	46%
33,000 To 33,999	165,951	56,124	\$338.20	\$28.19	47%
34,000 To 34,999	163,515	62,001	\$379.18	\$31.60	48%
35,000 To 35,999	153,294	53,514	\$349.10	\$29.10	49%
36,000 To 36,999	139,348	52,878	\$379.47	\$31.63	50%
37,000 To 37,999	124,222	57,264	\$460.98	\$38.42	51%
38,000 To 38,999	129,505	55,391	\$427.71	\$35.65	51%
39,000 To 39,999	143,041	67,175	\$469.62	\$39.14	52%
40,000 To 49,999	1,257,024	832,500	\$662.28	\$55.20	61%
50,000 To 59,999	912,665	943,485	\$1,033.77	\$86.16	67%
60,000 To 69,999	744,677	1,109,358	\$1,489.72	\$124.16	72%
70,000 To 79,999	586,213	1,123,333	\$1,916.25	\$159.71	76%
80,000 To 89,999	480,530	1,147,544	\$2,388.08	\$199.04	79%
90,000 To 99,999	400,774	1,161,458	\$2,898.04	\$241.54	81%

Table 3: Additional State Income Tax Needed to Restore California Public Higher education to 2000-1 Funding Level, by Taxpayer's Adjusted Gross Income*

Adjusted gross income class	Number of returns	Total Tax Liability (\$ 1,000s)	Liability per return (average)	Additional amount per return to restore public higher education	Cumulative percent of all returns
100,000 To 149,999	1,120,321	5,213,440	\$4,653.52	\$387.85	89%
150,000 To 199,999	401,419	3,418,630	\$8,516.36	\$709.80	92%
200,000 To 299,999	293,496	4,200,513	\$14,311.99	\$1,192.84	94%
300,000 To 399,999	102,006	2,395,258	\$23,481.54	\$1,957.09	94%
400,000 To 499,999	52,115	1,710,759	\$32,826.62	\$2,735.96	95%
500,000 To 999,999	83,064	4,447,524	\$53,543.34	\$4,462.61	95%
1,000,000 and over	51,050	17,108,964	\$335,141.32	\$27,932.61	95%
Corporations	684,363	9,992,185	\$14,600.71	\$1,216.91	100%
Total	15,067,040	55,703,848	\$3,697.07	\$308.14	

*Income classes as based on all tax returns, which include individual returns, joint (family) returns, partnerships and Subchapter S corporations.