

WORKING PAPER

**FINANCIAL OPTIONS FOR RESTORING QUALITY AND
ACCESS TO PUBLIC HIGHER EDUCATION IN CALIFORNIA: 2013-14**

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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. This report estimates 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 \$6.9 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?

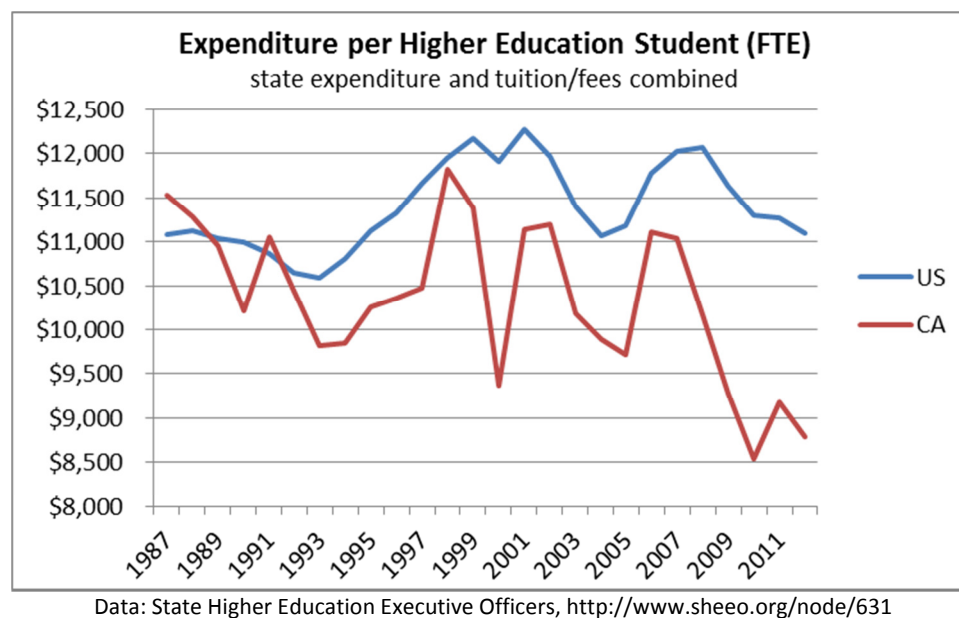
Answer: UC fees would have to increase over the current year's fees by \$9,646 (to a total of \$22,846 per year) and CSU fees would have to increase by \$3,646 (to a total of 9,118 per year); CCC fees would not need to increase.

#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 about \$50.

Introduction

Beginning with Governor Gray Davis' 2001-2 budget year, accelerating with Governor Arnold Schwarzenegger's Compact for Higher Education,¹ and continuing under Governor Jerry Brown, higher education in California has suffered large reductions in state funding. Governor Brown has begun to reinvest in higher education since the passage of proposition 30 last year, but these increases do not yet make up for the \$1.8 billion cut Brown made to California's public higher education his first year as Governor. 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. Over the past decade California has consistently spent less than most states per higher education student, and public higher education funding – even including massive tuition/fee increases – has fallen quickly in California relative to the United States as a whole in recent years.



In response to large cuts in state funding, fees at UC and CSU have increased much faster than at colleges in the US as a whole (Figure 2). While these fee increases have generally been framed as responses to the State's immediate budgetary problems, they are also congruent with the explicit public policy choice, based on conservative free market principles and embodied in Governor Schwarzenegger's Compact for Higher Education, 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.

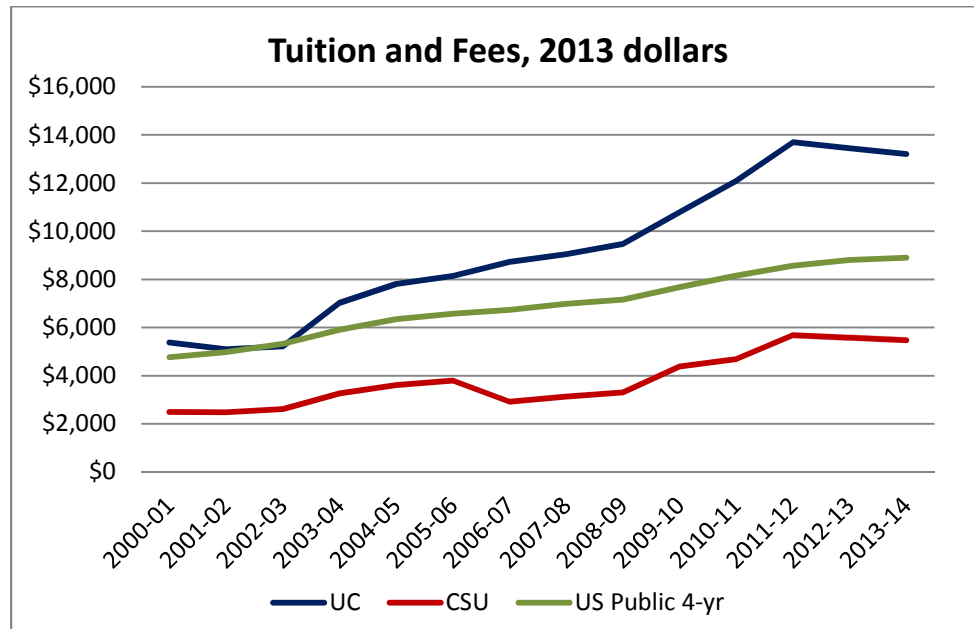
This shift in public policy is stated explicitly in the 2004 Compact on Higher Education between Governor Schwarzenegger and the UC President and CSU Chancellor: "In order to help maintain quality and enhance academic and research programs, UC will continue to seek additional private resources and

¹ The full text of the Compact has been removed from the budget.ucop.edu site, but we have a copy of it at <http://keepcaliforniaspromise.org/wp-content/uploads/2012/09/2005-11compactagreement.pdf>.

² The full text of the Master Plan is at <http://www.ucop.edu/acadinit/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>.

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.

These rapid fee increases in California have been halted in recent years, but fees are still much higher at UC than they would have been if tuition had increased at the rate of the rest of US public 4-year schools.



Source: College Board, table 4a of http://trends.collegeboard.org/college_pricing/

This working paper seeks to tie together the three elements of change: cuts 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 California higher education was reasonably financially intact before the recent large fee increases. This paper addresses three 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?
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 \$6.9 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 \$5,379 (from \$13,200), for CSU to \$2,495 (from \$5,472) and CCC to \$299 (from \$920).

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 2013-14 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 \$4.6 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. Providing funding to accommodate students who have been forced out of the higher education system would raise this number to \$6.9 billion.

³ The spreadsheet used to obtain all the results in this working paper is available at <http://keepcaliforniaspromise.org/3553/restore-2013-14>

⁴ FTE data comes from the individual higher education systems, state expenditure data comes from the Legislative Analyst's Office available at http://lao.ca.gov/sections/econ_fiscal/Historical_Expenditures_Pivot.xls.

Table 1. Public Funding and Funding Shortfalls for California Public Higher Education																		
	UC						CSU						CCC					
	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 Student	State Funds per Student	Total Funds per Student	State General Funds (mil)	Total Funds (mil)	
Student FTE	Gross	Net*					Gross	Net*										
2000-01 (2001 dollars)	183,355	\$3,964	\$2,656	\$17,407	\$20,063	\$3,192	287,021	\$1,839	\$1,232	\$6,463	\$9,695	\$2,429	961,561	\$220	\$2,856	\$3,076	\$2,747	\$8,367
2000-01 (2013 dollars)	183,355	\$5,379	\$3,604	\$23,618	\$27,222	\$4,331	287,021	\$2,495	\$1,672	\$11,483	\$13,155	\$3,296	961,561	\$299	\$3,876	\$4,174	\$3,727	\$11,353
2013-14 (actual)	238,686	\$13,200	\$8,844	\$11,915	\$20,759	\$2,844	370,031	\$5,472	\$3,666	\$7,045	\$10,712	\$2,607	1,041,668	\$920	\$3,707	\$4,627	\$3,861	\$9,312
Funds required for 2000-01 level of state support per student at 2000-01 fees (2013 dollars)																		
Shortfall	238,686	\$5,379	\$3,604	\$23,618	\$27,222	\$5,637	370,031	\$2,495	\$1,672	\$11,483	\$13,155	\$4,249	1,041,668	\$299	\$3,876	\$4,174	\$4,037	\$13,923
Qualified students (fte)						\$2,793						\$1,642					\$176	\$4,611
Qualified students (fte) denied admission	13,337			\$23,618		\$315	30,993			\$11,483		\$356	426,621		\$3,876		\$1,653	\$2,324
Shortfall						\$3,108						\$1,998					\$1,830	\$6,936
* Return to aid fraction	0.33																	

Qualified students denied admission data comes from CPEC's "Ready or Not: Here They Come," <http://www.cpec.ca.gov/completereports/2010Reports/10-08.pdf>

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Answer No. 2: Restoring the public higher education system for all students *only by increasing student fees* would require raising UC fees an additional \$9,646 (to a total of \$22,846 per year), and CSU fees by \$3,646 (to \$9,118 per year). CCC fees would not have to increase.

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.⁵ 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.

Table 2. Additional Tuition and Fee Increases Needed to Restore 2000-01 Expenditure Levels per Currently Enrolled Student											
	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)	\$17,407	\$3,964	\$2,656	\$20,063	\$8,463	\$1,839	\$1,232	\$9,695	\$2,856	\$220	\$3,076
2000-01 (2013 dollars)	\$23,618	\$5,379	\$3,604	\$27,222	\$11,483	\$2,495	\$1,672	\$13,155	\$3,876	\$299	\$4,174
Fall 2013	\$11,915	\$13,200	\$8,844	\$20,759	\$7,045	\$5,472	\$3,666	\$10,712	\$3,707	\$920	\$4,627
Total tuition and fees required to return to 2000-01 quality levels	\$11,915	\$22,846	\$15,307	\$27,222	\$7,045	\$9,118	\$6,109	\$13,155	\$3,707	\$468	\$4,174
Additional tuition and fees to return to 2000-01 quality levels (2010)		\$9,646				\$3,646				(\$452)	
Return to aid fraction	0.33										

Answer No. 3: Restoring public higher education while returning student fees to 2000-01 levels would cost the median California taxpayer an additional \$50.

Table 3 outlines these calculations. We obtained the distribution of taxes paid by adjusted gross income from the Franchise Tax Board for 2011,⁶ the most recent year available, then allocated the \$6.9 billion it would cost to restore public higher education to 2000-01 proportionately across all taxpayers. Note that the categories are for individual filers (joint filers are counted twice to arrive at a count of individual filers), 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 about \$50 next April 15. For the two-thirds of state taxpayers with taxable incomes below \$70,000, it would cost \$147 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 percent⁷ of all state revenues; part of the \$6.9 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 as a uniform surcharge across all tax categories. If the cost were allocated more or less progressively, that would also affect impact on individual taxpayers.

⁵ See page 16 of <http://www.assembly.ca.gov/acs/committee/c2/hearing/2005/april%2020%202005-uc%20csu-%20public-%20cm.doc>.

⁶ State income tax revenue by adjusted gross income class and state income tax revenue from corporations: http://www.ftb.ca.gov/aboutFTB/Tax_Statistics/2011.shtml

⁷ Governor's Budget Revenue Estimates: <http://www.ebudget.ca.gov/pdf/BudgetSummary/RevenueEstimates.pdf>.

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. 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 enrollment at California's public higher education institutions has been constrained by their budgets.

Finally, the distribution of taxes is based on 2011, the most recent time for which data are available; this distribution will be slightly different in 2013.

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

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	Number of joint returns	Number of filers	Total Tax Liability (\$ 1,000s)	Liability per filer (average)	Additional amount per filer to restore public higher education	Cumulative percent of all filers	
Negative	255,539	94,390	349,929	6,040	\$17.26	\$2.29	2%	
Zero	22,964	3,048	26,012	0	\$0.00	\$0.00	2%	
\$ 1 to \$ 999	243,458	30,881	274,339	160	\$0.58	\$0.08	3%	
1,000 to 1,999	152,495	11,847	164,342	122	\$0.74	\$0.10	4%	
2,000 to 2,999	162,383	15,527	177,910	596	\$3.35	\$0.44	5%	
3,000 to 3,999	186,219	16,018	202,237	993	\$4.91	\$0.65	6%	
4,000 to 4,999	198,673	19,476	218,149	810	\$3.71	\$0.49	7%	
5,000 to 5,999	217,681	24,328	242,009	1,262	\$5.22	\$0.69	8%	
6,000 to 6,999	225,849	21,877	247,726	2,467	\$9.96	\$1.32	9%	
7,000 to 7,999	226,148	29,559	255,707	2,020	\$7.90	\$1.05	10%	
8,000 to 8,999	227,224	36,937	264,161	1,543	\$5.84	\$0.77	11%	
9,000 to 9,999	256,370	32,888	289,258	1,299	\$4.49	\$0.60	13%	
10,000 to 10,999	249,675	31,388	281,063	2,021	\$7.19	\$0.95	14%	
11,000 to 11,999	249,252	40,989	290,241	3,096	\$10.67	\$1.42	15%	
12,000 to 12,999	273,218	50,561	323,779	3,203	\$9.89	\$1.31	17%	
13,000 to 13,999	249,324	50,589	299,913	4,217	\$14.06	\$1.87	18%	
14,000 to 14,999	253,544	51,717	305,261	6,339	\$20.77	\$2.75	20%	
15,000 to 15,999	254,423	45,280	299,703	7,556	\$25.21	\$3.34	21%	
16,000 to 16,999	271,669	61,140	332,809	9,583	\$28.79	\$3.82	23%	
17,000 to 17,999	252,882	50,435	303,317	11,730	\$38.67	\$5.13	24%	
18,000 to 18,999	231,408	53,697	285,105	10,527	\$36.92	\$4.90	26%	
19,000 to 19,999	237,930	49,722	287,652	14,011	\$48.71	\$6.46	27%	
20,000 to 20,999	230,295	55,638	285,933	14,654	\$51.25	\$6.80	28%	
21,000 to 21,999	225,943	54,443	280,386	19,414	\$69.24	\$9.19	30%	
22,000 to 22,999	212,652	54,807	267,459	22,872	\$85.52	\$11.35	31%	
23,000 to 23,999	193,964	50,290	244,254	24,446	\$100.09	\$13.28	32%	
24,000 to 24,999	205,718	51,643	257,361	28,416	\$110.41	\$14.65	33%	
25,000 to 25,999	193,476	51,735	245,211	29,189	\$119.03	\$15.79	34%	
26,000 to 26,999	174,016	44,194	218,210	31,377	\$143.79	\$19.08	35%	
27,000 to 27,999	195,033	51,276	246,309	35,548	\$144.32	\$19.15	37%	
28,000 to 28,999	181,219	54,549	235,768	36,974	\$156.83	\$20.81	38%	
29,000 to 29,999	169,911	48,799	218,710	39,911	\$182.48	\$24.21	39%	
30,000 to 30,999	165,143	52,686	217,829	40,297	\$184.99	\$24.54	40%	
31,000 to 31,999	160,169	51,343	211,512	44,311	\$209.49	\$27.79	41%	
32,000 to 32,999	147,012	43,157	190,169	47,544	\$250.01	\$33.17	42%	
33,000 to 33,999	153,871	51,751	205,622	52,486	\$255.25	\$33.86	43%	
34,000 to 34,999	143,913	47,188	191,101	51,254	\$268.21	\$35.58	43%	
35,000 to 35,999	146,851	47,300	194,151	61,152	\$314.97	\$41.79	44%	
36,000 to 36,999	142,787	49,570	192,357	61,384	\$319.12	\$42.34	45%	
37,000 to 37,999	149,090	55,258	204,348	65,008	\$318.13	\$42.20	46%	
38,000 to 38,999	132,232	46,524	178,756	71,049	\$397.46	\$52.73	47%	
39,000 to 39,999	139,902	49,017	188,919	70,875	\$375.16	\$49.77	48%	
40,000 to 49,999	1,143,984	439,807	1,583,791	838,311	\$529.31	\$70.22	55%	
50,000 to 59,999	891,386	388,759	1,280,145	1,044,768	\$816.13	\$108.27	61%	
60,000 to 69,999	710,246	356,927	1,067,173	1,180,658	\$1,106.34	\$146.77	66%	
70,000 to 79,999	587,332	329,368	916,700	1,287,612	\$1,404.62	\$186.34	71%	
80,000 to 89,999	484,915	297,841	782,756	1,336,265	\$1,707.13	\$226.48	74%	
90,000 to 99,999	392,155	265,825	657,980	1,304,736	\$1,982.94	\$263.07	78%	
100,000 to 149,999	1,155,151	869,027	2,024,178	5,863,548	\$2,896.76	\$384.30	87%	
150,000 to 199,999	478,533	394,458	872,991	4,318,777	\$4,947.10	\$656.31	91%	
200,000 to 299,999	331,659	280,945	612,604	4,901,242	\$8,000.67	\$1,061.41	94%	
300,000 to 399,999	109,959	93,617	203,576	2,608,931	\$12,815.51	\$1,700.18	95%	
400,000 to 499,999	51,790	42,780	94,570	1,723,981	\$18,229.68	\$2,418.45	95%	
500,000 to 999,999	74,401	62,431	136,832	3,979,811	\$29,085.38	\$3,858.63	96%	
1,000,000 and over	41,390	33,224	74,614	13,146,052	\$176,187.47	\$23,374.00	96%	
Corporations	754,315		754,315	7,807,574	\$10,350.55	\$1,373.16	100%	
Totals / Averages	15,568,741	5,688,471	21,257,212	52,280,021	\$2,459.40	\$445.49		
*Income classes as based on all tax returns, which include individual returns, joint (family) returns, partnerships and Subchapter S corporations.								