WORKING PAPER

FINANCIAL OPTIONS FOR RESTORING QUALITY AND ACCESS TO PUBLIC HIGHER EDUCATION IN CALIFORNIA: 2015-16

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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 (annual fees at UC would be rolled back by 60% to $5,364 from $13,200, by 55% for CSU to $2,488 from $5,472 and by 68% to CCC to $298 from $920)?

Answer: It would cost taxpayers $5.7 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?

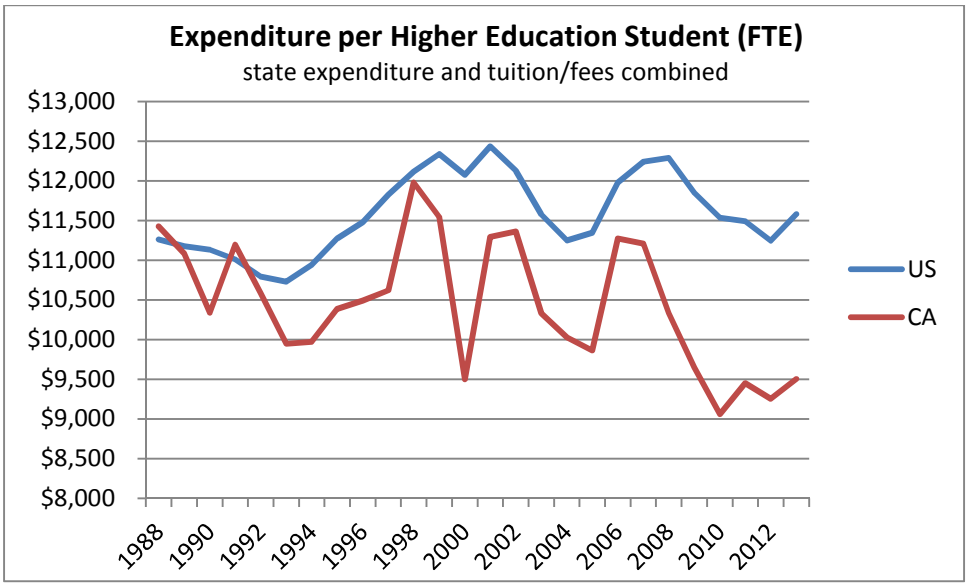
Answer: UC fees would have to increase over the current year's fees by 63% or $8,252 (to a total of $21,452 per year) and CSU fees would have to increase by 39% or $2,122 (to a total of $7,594 per year); CCC fees would not need to increase.

#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 $31.

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's early budgets, 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, but these increases do not yet make up for the massive earlier cuts. These reductions have effectively abandoned the California Master Plan for Higher Education[2] 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.



Data: State Higher Education Executive Officers
http://www.sheeo.org/resources/publications/shef-%E2%80%94-state-higher-education-finance-fy13

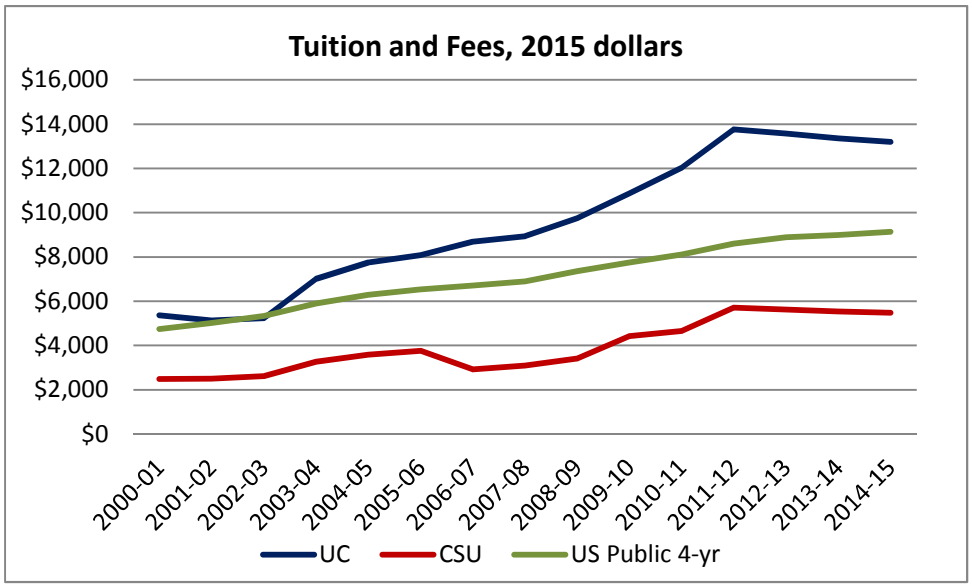
In response to large cuts in state funding, fees at UC and CSU have increased much faster than at colleges in the US as a whole (Figure 2). While these fee increases have generally been framed as responses to the State's immediate budgetary problems, they are also congruent with the explicit public policy 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

[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.

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.

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 $5.7 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 by 60% to $5,364 (from $13,200), by 55% for CSU to $2,488 (from $5,472) and by 68% to CCC to $298 (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 2015-16 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 $3.3 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 $5.7 billion. This number is lower than it has been in recent years primarily because the state has begun to modestly increase funding to higher education.

[3] The spreadsheet used to obtain all the results in this working paper is available at http://keepcaliforniaspromise.org/473424/reset-2015-16

[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_Source.xlsx.

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)		Fees		State Funds per Student	Total Funds per Student	State General Funds (mil)			State Funds per Student	Total Funds per Student	State General Funds (mil)	**Total State Funds (mil)**
	Student FTE	Gross	Net*				Student FTE	Gross	Net*				Student FTE	Fees				
2000-01 (2001 dollars)	183,355	$3,964	$2,656	$17,460	$20,116	$3,201	287,021	$1,839	$1,232	$8,509	$9,741	$2,442	1,046,344	$220	$2,690	$2,910	$2,815	$8,459
2000-01 (2015 dollars)	183,355	$5,364	$3,594	$23,627	$27,221	$4,332	287,021	$2,488	$1,667	$11,514	$13,181	$3,305	1,046,344	$298	$3,641	$3,938	$3,809	$11,446
2015-16 (Gov. proposal)	244,126	$13,200	$8,844	$12,848	$21,692	$3,136	392,751	$5,472	$3,666	$8,093	$11,759	$3,179	1,252,716	$920	$4,214	$5,134	$5,279	$11,594
Funds required for 2000-01 level of state support per student at 2000-01 fees (2015 dollars)	244,126	$5,364	$3,594	$23,627	$27,221	$5,768	392,751	$2,488	$1,667	$11,514	$13,181	$4,522	1,252,716	$298	$3,641	$3,938	$4,561	$14,851
Shortfall						$2,631						$1,343					($718)	$3,257
Qualified students (fte) denied admission	19,108			$23,627		$451	24,474			$11,514		$282	459,178		$3,641		$1,672	$2,405
Shortfall						$3,083						$1,625					$954	**$5,662**
* 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

Answer No. 2: Restoring the public higher education system for all students *only by increasing student fees* would require raising UC fees an additional $8,252 (to a total of $21,452 per year) and CSU fees would have to increase by $2,122 (to a total of $7,594 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)	$17,460	$3,964	$2,656	$20,116	$8,509	$1,839	$1,232	$9,741	$2,690	$220	$2,910
2000-01 (2015 dollars)	$23,627	$5,364	$3,594	$27,221	$11,514	$2,488	$1,667	$13,181	$3,641	$298	$3,938
Fall 2015	$12,848	$13,200	$8,844	$21,692	$8,093	$5,472	$3,666	$11,759	$4,214	$920	$5,134
Total tuition and fees required to return to 2000-01 quality levels	$12,848	$21,452	$14,373	$27,221	$8,093	$7,594	$5,088	$13,181	$4,214	($276)	$3,938
Additional tuition and fees to return to 2000-01 quality levels (2010)		$8,252				$2,122				($1,196)	
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 $31.

Table 3 outlines these calculations. We obtained the distribution of taxes paid by adjusted gross income from the Franchise Tax Board for 2013,[6] the most recent year available, then allocated the $5.7 billion it would cost to restore public higher education to 2000-01 proportionately across all taxpayers. Note that the categories are for individual filers (where individual returns are often joint returns for families), partnerships and Subchapter S corporations, as well as corporations that pay income taxes.

For the median personal income taxpayer (including families), restoring the entire system while rolling back student fees to what they were a decade ago would cost about $31 on April 15, 2015. This number is lower than it has been in recent years primarily because the state has begun to modestly increase funding to higher education. For the three-quarters of state taxpayers with taxable incomes below $90,000, it would cost $204 or less.

Income taxes are presented as one option, simply to illustrate the cost for typical taxpayers. Personal and corporate income taxes are forecast to be about 75 percent[7] of all state revenue in 2015-16s; part of the $5.7 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%20%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/Reports/2013/Annual_Reports.shtml
[7] Governor's Budget Revenue Estimates: http://www.ebudget.ca.gov/2015-16/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 2013, the most recent time for which data are available; this distribution will be slightly different in 2015.

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 tax returns	Total Tax Liability ($ 1,000s)	Liability per tax return (average)	Additional amount per tax return to restore public higher education	Cumulative percent of all tax returns
	Negative		220,899	15,773	$71.40	$6.05	1%
	Zero		15,537	0	$0.00	$0.00	1%
$ 1	to	$ 999	216,673	41	$0.19	$0.02	3%
1,000	to	1,999	145,861	110	$0.76	$0.06	4%
2,000	to	2,999	149,329	203	$1.36	$0.12	5%
3,000	to	3,999	167,265	1,159	$6.93	$0.59	6%
4,000	to	4,999	183,816	559	$3.04	$0.26	7%
5,000	to	5,999	203,066	1,270	$6.26	$0.53	8%
6,000	to	6,999	207,454	2,099	$10.12	$0.86	9%
7,000	to	7,999	242,339	2,524	$10.41	$0.88	11%
8,000	to	8,999	238,038	2,134	$8.97	$0.76	12%
9,000	to	9,999	277,415	2,970	$10.70	$0.91	14%
10,000	to	10,999	246,513	1,583	$6.42	$0.54	16%
11,000	to	11,999	251,541	2,173	$8.64	$0.73	17%
12,000	to	12,999	258,143	2,336	$9.05	$0.77	19%
13,000	to	13,999	251,322	3,660	$14.56	$1.23	20%
14,000	to	14,999	250,604	6,091	$24.31	$2.06	22%
15,000	to	15,999	238,463	4,079	$17.10	$1.45	24%
16,000	to	16,999	275,555	6,111	$22.18	$1.88	25%
17,000	to	17,999	244,205	9,027	$36.97	$3.13	27%
18,000	to	18,999	228,688	9,131	$39.93	$3.38	28%
19,000	to	19,999	224,606	9,527	$42.42	$3.59	30%
20,000	to	20,999	236,131	11,429	$48.40	$4.10	31%
21,000	to	21,999	215,999	13,407	$62.07	$5.26	32%
22,000	to	22,999	211,367	13,980	$66.14	$5.60	34%
23,000	to	23,999	202,541	17,306	$85.45	$7.24	35%
24,000	to	24,999	207,888	21,180	$101.88	$8.63	36%
25,000	to	25,999	197,534	21,875	$110.74	$9.38	38%
26,000	to	26,999	183,848	23,048	$125.37	$10.62	39%
27,000	to	27,999	188,167	27,043	$143.72	$12.17	40%
28,000	to	28,999	187,728	31,671	$168.70	$14.29	41%
29,000	to	29,999	190,011	31,288	$164.66	$13.95	42%
30,000	to	30,999	175,617	33,602	$191.34	$16.21	43%
31,000	to	31,999	167,912	31,620	$188.31	$15.95	44%
32,000	to	32,999	166,110	37,622	$226.49	$19.19	45%
33,000	to	33,999	154,887	40,569	$261.93	$22.19	46%
34,000	to	34,999	150,686	38,755	$257.19	$21.79	47%
35,000	to	35,999	160,662	50,490	$314.26	$26.62	48%
36,000	to	36,999	146,311	46,258	$316.16	$26.78	49%
37,000	to	37,999	138,402	51,249	$370.29	$31.37	50%
38,000	to	38,999	140,418	59,166	$421.35	$35.69	51%
39,000	to	39,999	128,952	50,840	$394.26	$33.40	52%
40,000	to	49,999	1,143,878	636,952	$556.84	$47.17	59%
50,000	to	59,999	918,939	872,473	$949.44	$80.43	65%
60,000	to	69,999	734,661	1,003,449	$1,365.87	$115.70	69%
70,000	to	79,999	615,187	1,147,685	$1,865.59	$158.03	73%
80,000	to	89,999	505,086	1,213,383	$2,402.33	$203.50	76%
90,000	to	99,999	414,959	1,251,072	$3,014.93	$255.39	79%
100,000	to	149,999	1,240,521	5,921,133	$4,773.10	$404.33	87%
150,000	to	199,999	546,310	4,740,023	$8,676.43	$734.98	90%
200,000	to	299,999	417,128	5,973,354	$14,320.19	$1,213.06	93%
300,000	to	399,999	143,131	3,340,318	$23,337.49	$1,976.92	94%
400,000	to	499,999	69,689	2,291,560	$32,882.67	$2,785.49	94%
500,000	to	999,999	104,905	5,869,570	$55,951.29	$4,739.63	95%
1,000,000	and over		56,839	24,919,175	$438,416.85	$37,138.27	95%
Corporations			784,806	6,920,947	$8,818.67	$747.03	100%
Totals / Averages			**15,984,542**	**66,836,054**	$4,181.29	$354.20	

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