

## **Campaign for the Future of Higher Ed Working Paper: “Reset Button”**

*A pervasive—yet largely unexamined—assumption about funding higher education today is that the days of low (or in some places virtually no) tuition are over. The reasoning goes something like this: we simply can’t afford to go back to the days when higher education was more adequately funded, tuition was low, and students were able to work their way through school with little or no debt. We must be realistic and embrace the “new normal” of drastically reduced funding for higher education and skyrocketing tuition and debt for students.*

*Stan Glantz and Eric Hays’s paper takes on this assumption. Using simple arithmetic and the state of California as a test case, they demonstrate that more adequate funding of higher education is easily within our reach. This paper asks us to re-examine the political choices behind the current defunding of higher education and gives us a road-map for what it would take to begin reversing that trend.*

## **FINANCIAL OPTIONS FOR RESTORING QUALITY AND ACCESS TO PUBLIC HIGHER EDUCATION IN CALIFORNIA: 2012/13**

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This report is available at  
<http://keepcaliforniaspromise.org/3025/restore-2012-13-january-update>

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## EXECUTIVE SUMMARY

Huge cuts to state funding and steep increases in student fees have eroded access to affordable college degrees in California's public higher education system.

This report estimates what it would cost – through restored taxpayer funding or tuition increases – to restore quality and to reopen the University of California, California State University and California Community Colleges to the thousands of qualified students excluded by recent budget cuts.

In this working paper we consider 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?***

By reset, we mean restoring access to and quality of public higher education while rolling back student fees to 2000-01 levels, adjusted for inflation (We measure “quality” in terms of per-student support).

**Answer:** It would cost taxpayers \$6.405 billion.

***#2. If taxpayer support for public higher education is not restored, how much would student fees need to be increased to restore the level of per-student resources available in 2000-01?***

**Answer:** University of California fees would have to increase over the current year's fees by \$10,491 (to a total of \$23,721 per year); California State University fees would have to increase by \$2,470 (to a total of \$8,989 per year); California Community College fees would not have to increase.

***#3. If the Governor and Legislature were to decide to push the “reset” button, what would it cost the typical California taxpayer?***

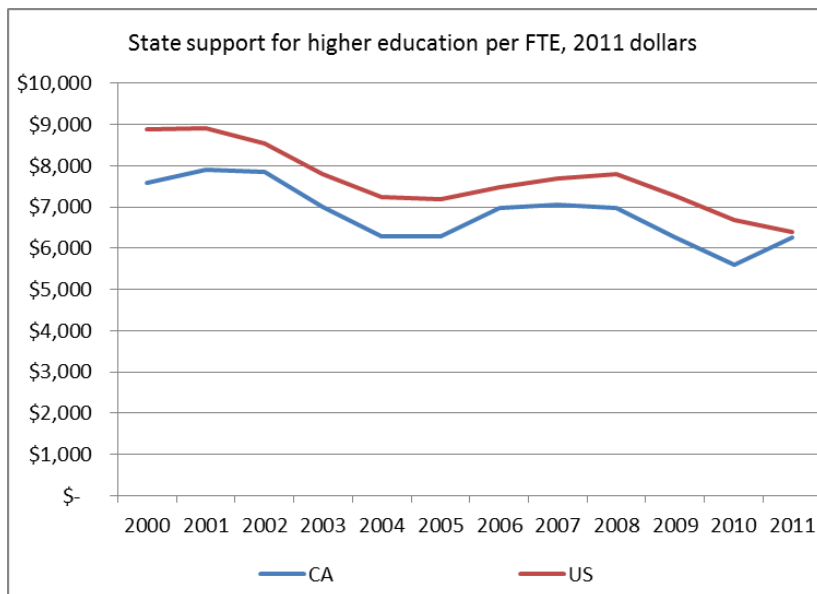
**Answer:** It would cost the median California taxpayer about \$48.

## Introduction

Higher education in California has suffered huge reductions in state funding. The deep cuts began with Governor Gray Davis' 2001-2 budget year and accelerated with Governor Arnold Schwarzenegger's Compact for Higher Education.<sup>1</sup> The cuts have continued under Governor Jerry Brown.

In effect, these reductions mean that the state has abandoned the California Master Plan for Higher Education,<sup>2</sup> which promised 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.

It will be a surprise to many people that, during these years, California has consistently spent less on each higher education student than most other states (Figure 1).



Data: State Higher Education Executive Officers, <http://www.sheeo.org/finance/shef-home.htm>

At the same time, fees at UC and CSU have increased much faster than at colleges in the US as a whole (Figure 2).

Policymakers claim that the fee increases were implemented in response to the state's immediate budgetary problems. But public policy choices have also been in play. One of the aims of Governor Schwarzenegger's Compact for Higher Education was 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.

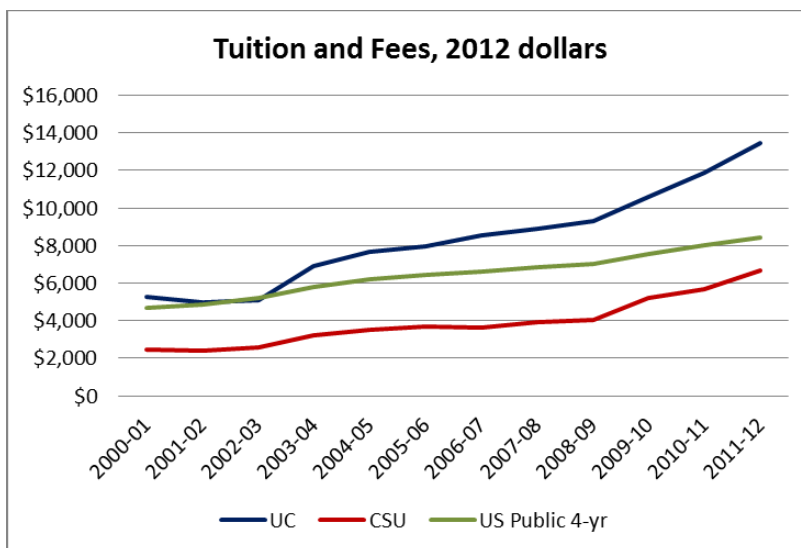
The 2004 Compact on Higher Education between Governor Schwarzenegger and the UC President and CSU Chancellor spells out this attitude shift in public policy:

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

<sup>2</sup> 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>.

*“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 the primary source of support for “basic programs.” Private sources were used for additional initiatives.



Source: College Board, table 4a of [http://trends.collegeboard.org/college\\_pricing/](http://trends.collegeboard.org/college_pricing/)

This working paper ties 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 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, what would it cost the typical California taxpayer?

**Answer No. 1: Returning quality and fees to the level of 2000-01 would cost taxpayers \$6.405 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 \$5,278 (from \$13,230), for CSU to \$2,449 (from \$6,519) and for CCC to \$439 (from \$1,080).

Table 1 shows the calculations that produced this number.<sup>3</sup> We begin with the number 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,<sup>4</sup> 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 2012-13 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 \$4.677 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 \$6.405 billion.

	UC						CSU						CCC					
	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)	Total State Funds (mil)
		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	\$8,463	\$9,695	\$2,429	961,561	\$330	\$2,856	\$3,186	\$2,747	\$8,367
2000-01 (2012 dollars)	183,355	\$5,278	\$3,536	\$23,178	\$26,715	\$4,250	287,021	\$2,449	\$1,641	\$11,269	\$12,909	\$3,234	961,561	\$439	\$3,803	\$4,243	\$3,657	\$11,141
2012-13 (actual)	237,218	\$13,230	\$8,864	\$10,821	\$19,685	\$2,567	361,874	\$6,519	\$4,368	\$6,886	\$11,254	\$2,492	1,041,668	\$1,080	\$3,650	\$4,730	\$3,802	\$8,861
Funds required for 2000-01 level of state support per student at 2000-01 fees (2012 dollars)	237,218	\$5,278	\$3,536	\$23,178	\$26,715	\$5,498	361,874	\$2,449	\$1,641	\$11,269	\$12,909	\$4,078	1,041,668	\$439	\$3,803	\$4,243	\$3,962	\$13,538
Shortfall						\$2,931						\$1,586					\$160	\$4,677
Qualified students denied admission	4,535			\$23,178		\$105	31,286			\$11,269		\$353	334,020		\$3,803		\$1,270	\$1,728
Shortfall						\$3,036						\$1,938					\$1,430	\$6,405
* 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 \$10,491 (to a total of \$23,721 per year), and CSU fees by \$2,470 (to \$8,989 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.<sup>5</sup> 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.

	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	\$330	\$3,186
2000-01 (2012 dollars)	\$23,178	\$5,278	\$3,536	\$26,715	\$11,269	\$2,449	\$1,641	\$12,909	\$3,803	\$439	\$4,243
<b>Fall 2012</b>	\$10,821	\$13,230	\$8,864	\$19,685	\$6,886	\$6,519	\$4,368	\$11,254	\$3,650	\$1,080	\$4,730
Total tuition and fees required to return to 2000-01 quality levels	\$10,821	\$23,721	\$15,893	\$26,715	\$6,886	\$8,989	\$6,023	\$12,909	\$3,650	\$593	\$4,243
Additional tuition and fees to return to 2000-01 quality levels (2010)		\$10,491				\$2,470					(\$487)
Return to aid fraction	0.33										

<sup>3</sup> The spreadsheet used to obtain all the results in this working paper is available at [http://keepcaliforniaspromise.org/2960/reset\\_2012-13](http://keepcaliforniaspromise.org/2960/reset_2012-13)

<sup>4</sup> Student 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/laoapp/LAOMenus/lao\\_menu\\_economics.aspx](http://lao.ca.gov/laoapp/LAOMenus/lao_menu_economics.aspx) and supplemented for recent data years by the Governor's 2012 budget: <http://www.ebudget.ca.gov/StateAgencyBudgets/6013/agency.html>

<sup>5</sup> 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 \$48 per year.**

Table 3 outlines these calculations. We obtained the distribution of taxes paid by adjusted gross income per tax return from the Franchise Tax Board 2009 (for tax year 2008),<sup>6</sup> the most recent year available, then allocated the \$6.405 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. Thus, the numbers per taxpayer (as opposed to tax return) for joint returns would be half the numbers in Table 3.

For the median personal income tax return, restoring California's entire higher education system while rolling back student fees to what they were a decade ago (adjusted for inflation) would cost \$48 next April 15. For the two-thirds of state tax returns with taxable incomes below \$60,000, it would cost \$123 or less. Tax returns with the top 5% of adjusted gross income -- \$400,000 to \$499,999 -- would increase by \$4,119.

It is also worth noting that our income tax distribution data lags our other data by several years and is just now falling into the deficit (2008 year data), which has an effect on the calculation of the median return. For comparison, using 2007 year data the median return would pay \$41 to restore higher education in 2012-13. Certainly in 2012 the state's economy looks a lot better than it did in 2008, so the actual cost to the median return is likely lower than \$48.

Income taxes are presented as one option, simply to illustrate the cost for typical taxpayers. Personal and corporate income taxes are only 70 percent<sup>7</sup> of all state revenues; part of the \$6.405 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. 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 a 2009 report of tax year 2008, the most recent time for which data are available; this distribution will be different in 2012.

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

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<sup>6</sup>State income tax revenue by adjusted gross income class and state income tax revenue from corporations:  
[http://www.ftb.ca.gov/aboutFTB/Tax\\_Statistics/2009.shtml](http://www.ftb.ca.gov/aboutFTB/Tax_Statistics/2009.shtml)

<sup>7</sup> 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	222,405	5,851	\$26.31	\$3.40	1%
Zero	3,076	0	\$0.00	\$0.00	1%
\$ 1 to \$ 999	173,121	31	\$0.18	\$0.02	3%
1,000 to 1,999	148,759	156	\$1.05	\$0.14	4%
2,000 to 2,999	160,959	497	\$3.09	\$0.40	5%
3,000 to 3,999	178,598	222	\$1.24	\$0.16	6%
4,000 to 4,999	193,424	919	\$4.75	\$0.61	7%
5,000 to 5,999	204,148	1,073	\$5.25	\$0.68	8%
6,000 to 6,999	209,682	1,367	\$6.52	\$0.84	10%
7,000 to 7,999	201,671	1,405	\$6.97	\$0.90	11%
8,000 to 8,999	228,781	1,757	\$7.68	\$0.99	12%
9,000 to 9,999	244,481	1,866	\$7.63	\$0.99	14%
10,000 to 10,999	207,251	1,265	\$6.10	\$0.79	15%
11,000 to 11,999	230,481	1,207	\$5.24	\$0.68	17%
12,000 to 12,999	252,414	2,911	\$11.53	\$1.49	18%
13,000 to 13,999	215,362	2,506	\$11.63	\$1.50	20%
14,000 to 14,999	246,818	4,628	\$18.75	\$2.42	21%
15,000 to 15,999	235,129	4,818	\$20.49	\$2.65	23%
16,000 to 16,999	237,049	6,064	\$25.58	\$3.31	24%
17,000 to 17,999	248,625	8,680	\$34.91	\$4.51	26%
18,000 to 18,999	238,859	9,996	\$41.85	\$5.41	28%
19,000 to 19,999	235,059	10,800	\$45.94	\$5.94	29%
20,000 to 20,999	202,877	9,748	\$48.05	\$6.21	30%
21,000 to 21,999	204,711	11,854	\$57.90	\$7.49	32%
22,000 to 22,999	212,663	17,038	\$80.12	\$10.36	33%
23,000 to 23,999	211,425	21,291	\$100.70	\$13.02	34%
24,000 to 24,999	211,636	23,113	\$109.21	\$14.12	36%
25,000 to 25,999	200,875	22,282	\$110.93	\$14.34	37%
26,000 to 26,999	199,201	26,046	\$130.75	\$16.91	38%
27,000 to 27,999	174,510	26,380	\$151.17	\$19.55	39%
28,000 to 28,999	193,617	30,320	\$156.60	\$20.25	41%
29,000 to 29,999	167,239	29,474	\$176.24	\$22.79	42%
30,000 to 30,999	168,405	36,134	\$214.57	\$27.74	43%
31,000 to 31,999	177,622	39,729	\$223.67	\$28.92	44%
32,000 to 32,999	151,503	34,513	\$227.80	\$29.46	45%
33,000 to 33,999	171,398	47,737	\$278.51	\$36.01	46%
34,000 to 34,999	152,055	49,297	\$324.20	\$41.92	47%
35,000 to 35,999	164,869	57,715	\$350.07	\$45.27	48%
36,000 to 36,999	159,125	56,177	\$353.04	\$45.65	49%
37,000 to 37,999	147,186	54,435	\$369.84	\$47.82	50%
38,000 to 38,999	135,446	60,657	\$447.83	\$57.91	51%
39,000 to 39,999	146,262	65,555	\$448.20	\$57.96	52%
40,000 to 49,999	1,221,224	709,010	\$580.57	\$75.07	60%
50,000 to 59,999	920,791	874,835	\$950.09	\$122.85	66%
60,000 to 69,999	756,732	1,018,655	\$1,346.12	\$174.06	71%
70,000 to 79,999	606,055	1,118,874	\$1,846.16	\$238.72	75%
80,000 to 89,999	507,840	1,141,887	\$2,248.52	\$290.75	78%
90,000 to 99,999	420,778	1,165,959	\$2,770.96	\$358.30	80%
100,000 to 149,999	1,201,298	5,302,549	\$4,414.02	\$570.76	88%
150,000 to 199,999	491,523	3,992,510	\$8,122.73	\$1,050.31	91%
200,000 to 299,999	330,664	4,532,627	\$13,707.65	\$1,772.47	94%
300,000 to 399,999	110,417	2,494,343	\$22,590.21	\$2,921.03	94%
400,000 to 499,999	51,888	1,652,743	\$31,852.12	\$4,118.64	95%
500,000 to 999,999	75,832	3,936,043	\$51,904.78	\$6,711.56	95%
1,000,000 and over	42,517	12,948,664	\$304,552.64	\$39,380.24	95%
Corporations	727,675	7,858,070	\$10,798.87	\$1,396.35	100%
<b>Totals / Averages</b>	<b>15,534,011</b>	<b>49,534,280</b>	<b>\$3,188.76</b>	<b>\$412.32</b>	

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