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May 7, 2012

Hon. Kamala D. Harris
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Ashley Johansson
Initiative Coordinator

Dear Attorney General Harris:

Pursuant to Elections Code Section 9005, we have reviewed the proposed statutory initiative regarding public postsecondary funding and accountability (A.G. File No. 12-0011 Amdt.1S).

Background

Students Are Charged Tuition/Fees to Attend Public Colleges and Universities. The state has three public systems of higher education: the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC). In general, students must pay tuition (at the universities) and systemwide fees (at the community colleges). For 2011-12, the charges for a full-time undergraduate student are $12,192 at UC, $5,472 at CSU, and $1,080 at CCC. Students in graduate and professional programs generally are charged somewhat higher tuition. The state has no specific policy for how tuition and fees should be adjusted annually. From 2007-08 to 2011-12, undergraduate tuition and fees at UC and CSU have increased by 84 percent and 97 percent, respectively. At the CCC, fees for full-time students increased by 80 percent since 2007-08.

Tuition and Fee Revenue Partially Pay for College and University Costs. The revenues provided from tuition and fees are used to partially cover the operating costs of colleges and universities, with state funding covering most of the remainder of these costs. Currently, tuition and fee revenue cover roughly half the operating costs at UC and CSU, and about a fifth of the operating costs at CCC.

State Financial Aid Programs Help Cover Cost for Needy Students. The state administers several financial aid programs, such as the Cal Grant program, that provide grants and other forms of aid to help cover higher education costs for financially needy students. The state currently spends about $1.5 billion annually on such programs.

Proposal

Tuition and Fee Rollback. This proposal would reduce tuition and fees at UC, CSU, and CCC to their January 2010 levels, adjusted for inflation. We estimate that this would result in full-time annual resident tuition and fee charges of approximately $9,500 at UC, $4,270 at CSU, and $830 at CCC, beginning in January 2013.

Tax Increases to Fund Universities. This measure would increase rates of four existing statewide taxes and fees, with the resulting revenue placed in a special fund to be used by UC and CSU. Specifically, the measure states the following: "Taxes increases in automobile registration of $5.00, a 0.20 cent tax increase per pack of cigarettes, a 25% increase of taxes for alcoholic beverages, [and] a 1.5 cent tax increase per gallon of gasoline." These provisions are subject to a large degree of interpretation.

First, the measure would institute a new cigarette tax of less than one cent per pack. It is unclear if this would also result in an increased tax on other tobacco products. Current state cigarette taxes of 87 cents per pack are paid by distributors, which may seek reimbursement for these taxes from the businesses to which they sell cigarettes (which, in turn, may include the taxes in the retail selling price). This measure would increase the cigarette taxes by two-tenths of one cent per pack, such that the tax would be a number of cents that was not a whole number.

Second, the measure requires a 25 percent "increase of taxes" for alcoholic beverages, without any additional detail. Currently, California charges a tax of $3.30 per gallon for distilled spirits of 100 proof or less; $6.60 per gallon for distilled spirits of over 100 proof; 30 cents per gallon of champagne and sparkling wine; and 20 cents per gallon for beer, wine, and sparkling hard cider. For purposes of this analysis, we have interpreted the measure to require each of those tax rates to be increased by 25 percent—that is, for example, 5 cents more per gallon for beer (up 25 percent from the current 20-cent tax) or $1.65 more per gallon of over-100-proof spirits (up 25 percent from the current $6.60 tax). Other interpretations of these tax increases may be possible.

The revenue resulting from these tax increases would be apportioned between UC and CSU in proportion to the number of students admitted to each system. The funds would be restricted only for education related expenses at the two university systems.

Spending Caps. This measure requires that per-student spending levels at UC, CSU, and CCC be maintained below the levels in place on January 1, 2010, adjusted for inflation. Combining all major sources of funding (tuition, fees, and state General Fund support), we estimate the respective caps for the three systems would be approximately $19,800 per full-time student at UC, $11,100 at CSU, and $5,430 at CCC.

Other Funding Requirements. This measure prohibits both decreases in funding and increases in tuition at the three systems, with the exception of underachieving campuses. The state Legislature would be required to set benchmarks for determining which campuses, if any, are underachieving. The measure also prohibits the state from reducing funding for its student aid and student loan programs below January 2011 levels.

New Commission. The initiative would establish a new commission with the purpose of eliminating redundancies at UC, CSU, and CCC. Within 600 days of passage of this measure, the Legislature would be required to make appropriate recommendations to eliminate redundancies and reduce costs at the three systems. Findings would be published on a publicly accessible state website.

Fiscal Impact

Tuition and Fee Rollback. We estimate that the tuition and fee rollbacks would reduce fee and tuition revenue received by the three higher education systems in the second half of the 2012-13 academic year by about $755 million ($430 million at UC, $225 million at CSU, and $100 million at CCC). These revenue losses would roughly double in the following academic year. It is unclear whether the initiative would permit the universities to increase tuition levels each year for inflation.

Tax Increases. We estimate the measure's proposed tax increases would result in additional annual state revenue of about $440 million, as follows:

- About $140 million per year from the increased tax on automobile registrations.
- About $2 million per year from the increased tax on cigarettes.
- About $220 million per year from the increased tax on each gallon of gasoline.
- About $80 million per year from the increased alcoholic beverage tax.

In addition to the above effects, the increased amount spent by consumers and businesses on such products could reduce the amount they have to spend on other purchases in the economy, affecting negatively, among other things, collections of state and local sales taxes. Such reductions in collections would offset somewhat the higher state revenues described above.

Allocation of Tax Funds to Universities. Based on the universities' current enrollment levels, UC would receive about 40 percent of the revenue from the education fund, while CSU would receive about 60 percent. As a result, we estimate annual funding of about $175 million for UC and $265 million for CSU.

Spending Caps. Given that new revenue from the education fund would fall significantly short of the amount needed to replace lost tuition revenue, the amount of total funding available per student would probably fall short of the spending caps.

New Commission. The state likely would incur minor administrative costs to create the new commission directed at eliminating redundancies in higher education. These costs could be more than offset if some (or all) of the commission's efficiency recommendations were implemented and resulted in sufficient savings.

Summary of Fiscal Effects:

- Annual reduction in student tuition and fee revenue at the state's public colleges and universities totaling about $1.5 billion.
- Annual increase in state tax revenue of about $440 million. Of this amount, about $175 million would be directed to the University of California (UC) and about $265 million would be directed to the California State University (CSU) for education related expenses.
- As a result of the above, net funding losses for higher education of about $680 million at UC, $180 million at CSU, and $200 million at the California Community Colleges.

- Minor costs to create a new commission to eliminate redundancies in higher education. These costs could be more than offset if some (or all) of the commission's efficiency recommendations were implemented and resulted in savings.

Sincerely,

Mac Taylor
Legislative Analyst

Ana J. Matosantos
Director of Finance