



October 17, 2017

Hon. Xavier Becerra  
Attorney General  
1300 I Street, 17<sup>th</sup> Floor  
Sacramento, California 95814

Attention: Ms. Ashley Johansson  
Initiative Coordinator

Dear Attorney General Becerra:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional initiative (A.G. File No. 17-0025, Amendment #1) related to online education at the University of California (UC).

## **Background**

***UC Is the State's Primary Public Research Institution.*** UC provides undergraduate and graduate instruction and grants degrees through the doctorate. In 2016-17, UC's ten campuses served 218,000 California resident full-time equivalent students and 46,000 nonresident (out-of-state or international) full-time equivalent students. The California Constitution establishes UC as a public trust administered by a governing body known as the Board of Regents. The Board of Regents, in turn, appoints a President to lead the system. The Board of Regents also authorizes the Academic Senate to set academic policies and approve courses and curricula. In addition to UC, the state has two other public higher education segments: (1) the California State University (CSU), which provides instruction and grants degrees generally through the master's degree; and (2) the California Community Colleges (CCC), which provide lower-division undergraduate instruction and grant associate degrees and industry certificates.

***Instruction Funded Primarily by Public Funds and Student Tuition and Fees.*** In 2016-17, UC received \$3.5 billion in direct state support and \$3.4 billion in tuition and fee revenue. The other public segments also receive state funding and tuition and fee revenue, with community colleges additionally receiving local property tax revenue.

***Tuition Charges Vary at Each Segment.*** Tuition charges are the highest at UC and the lowest at CCC. Tuition charges at UC and CSU are typically higher for graduate students. For both undergraduate and graduate students, nonresident students pay a supplemental charge in addition to the tuition charged to California residents. Beyond systemwide tuition and fee charges, students pay various other expenses while enrolled at the segments, such as charges for health services, textbooks and other instructional materials, and housing costs.

***State Provides Financial Aid for Certain Students Attending Segments.*** Numerous state programs provide grant aid to financially needy undergraduate students at each segment. These state programs (administered primarily by the California Student Aid Commission and each of the public segments) are focused generally on covering the cost of tuition at each segment, though some aid is also available to cover other expenses.

***Each Segment Provides California Residents Different Levels of Access to Its Programs.*** To qualify for admission to UC's and CSU's degree programs, a California resident must meet certain admission requirements, such as achieving a certain test score or grade point average while in high school. By contrast, all persons 18 or older may attend a community college. Generally, students enroll in credit courses applying to degree programs. In some circumstances campuses permit students and California residents generally to take a course without earning credit, known as "auditing." A student auditing may attend and participate in the class and may pay certain fees for the class, but the instructor is not obligated to grade tests or other classroom assignments submitted by the student.

***Segments Offer Limited Number of Online Courses.*** Most courses at UC, CSU, and CCC are taught in-person, typically with an instructor lecturing to, or leading a discussion among, a roomful of students at an assigned time. In recent years, each segment has developed a number of courses and programs in an online format. Online courses and programs vary in how they deliver instruction to students. Some online courses, for example, do not require students to appear on-campus for any class sessions, with all course content delivered online. Other online courses require students to attend class for a limited number of times for face-to-face instruction (such as to perform a lab experiment) or to take an exam. While many online courses allow students to attend class any time of day and from anywhere with an Internet connection, students are typically given a deadline—such as midnight at the end of each week—by which they must complete required assignments and exams.

***Segments Developing Other Programs and Services Online.*** For example, in recent years the state has provided funding to CSU and CCC to encourage the use of "open educational resources," or free digital instructional materials used in lieu of publisher-owned textbooks and other course content. The goal of these programs is to reduce textbooks costs for students. The segments have also sought to expand public access to their library holdings over the Internet. UC's California Digital Library, for example, allows the public to search for publications around the world and access certain content electronically.

## **Proposal**

***Creates New Online University With All Public Segment Courses.*** The measure amends the California Constitution by requiring the Board of Regents to create an entity known as the University of California Online (UCO). The measure requires UCO to offer in an online format all existing publicly funded courses and programs at UC, CSU, and CCC, excluding any duplicate courses or programs offered at multiple campuses. The law specifies that UCO is a separate university within the UC system, with its own budget, academic senate, and faculty. The board would govern the online university and be required to appoint a "UCO President" to serve

as its chief executive officer. If the office of the UCO president is vacant for 180 days, the state Governor would be required to make that appointment.

***Establishes Right to Audit or Enroll for Credit in Any Course.*** The measure establishes two divisions at UCO—(1) a noncredit division that allows all members of the public either to audit any course at no cost or to access certain additional content (such as acquiring course books) for a fee, and (2) a credit division that allows any member of the public (resident or nonresident) to enroll in a course for a fee and earn academic credit toward a degree. The measure further specifies that students would be allowed to complete all UCO courses at their own pace. The measure gives UCO faculty the authority to require students to take tests and participate in lab sessions in-person.

***Includes Three Additional Program Requirements.*** First, UCO would be required to house all digital libraries currently operated by each segment. Second, the measure would require the UC Regents and the UCO President to encourage the use of open educational resources. Third, the UC Regents and the UCO President would be required to establish a nonprofit online bookstore that makes available all textbooks required in UC, CSU, and CCC courses.

***Declares Online University Will Be Fully Funded by Student Tuition and Fees.*** The measure requires UCO to set tuition and fees in the credit division to cover the online university's costs. Specifically, the proposed language specifies that the tuition charge associated with a course would reflect (1) UCO's start-up and overhead costs, (2) the specific cost associated with administering each course, and (3) the costs of that course's books and instructional materials. The measure also requires UC to charge supplemental tuition to nonresident students enrolled in UCO's credit division. The resulting revenue from this supplemental charge would fund (1) merit-based scholarships for California residents enrolled at UCO; (2) food pantries for UCO, UC, CSU, and CCC students; and (3) student housing. In addition to these tuition and fee requirements, the measure requires the State Treasurer to issue bonds to fund UCO's costs. The bonds would be repaid from the online university's tuition and fee revenue.

## **Fiscal Effects**

***At Full Scale, Annual Costs Could Be in the Hundreds of Millions of Dollars.*** Creating and operating an online university as required by the measure would entail a number of costs. These costs include creating and periodically updating thousands to potentially tens of thousands of courses; purchasing and maintaining equipment and technology to support online courses; and employing faculty, administrators, bookstore staff, and support staff. Total costs would depend on a number of factors, including the amount UCO spends to develop and refresh courses, faculty-to-student ratios, and staff compensation levels. At full scale, we estimate annual costs for UCO could be in the hundreds of millions of dollars.

***Possible Fiscal Exposure to State.*** The measure declares that UCO is to fully cover its costs with tuition and fee revenue, with initial funding to come from the sale of bonds. Creating the online university, however, poses uncertainties that could result in some fiscal exposure to the state. If, for example, UCO incurred start-up costs but then did not become a viable operation (for example, due to low student demand in credit courses), then the state likely would need to absorb those initial costs. Even over the longer term, were UCO to be unable to reduce its cost

structure in response to unexpected enrollment declines, the state might feel compelled to help temporarily support the online university.

***Other Possible Effects on the State.*** The measure could have a variety of other cost impacts on the state. For instance, were UCO enrollment demand to be strong, with the perceived value of UCO courses greater than traditional public higher education options, then the state potentially could achieve savings as a result of UCO drawing enrollment away from existing public campuses. Additionally, the cost of state financial aid programs might be affected (decreasing or increasing), depending on whether financially needy UCO students qualify for state financial aid programs, whether UCO draws more financially needy students into higher education, and the difference in the cost of providing aid to students at UCO relative to where they otherwise would have attended.

### **Summary of Fiscal Effects**

This measure would have the following major fiscal effects:

- Costs for a new online university, potentially up to hundreds of millions of dollars annually at full scale. Costs intended to be covered by tuition and fees charged to enrolled students.
- Potential other fiscal impacts on the state—costs and savings—depending on various factors, including initial student demand for the new online university, enrollment fluctuations at the online university, the impact of the online university on existing public colleges and universities, and changes in state financial aid costs.

Sincerely,

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Mac Taylor  
Legislative Analyst

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Michael Cohen  
Director of Finance