FOOTHILL-DE ANZA
Community College District

Review of Statewide Tuition Increase Position
Board Study Session
Jan. 19, 2010

This discussion has been scheduled to help the board decide whether to take a position on the issue of a statewide tuition increase for California Community Colleges. The background presented here includes material distributed by the Community College League of California (CCLC) to the statewide CEO board, the California Community Colleges Consultation Council and the CCC community at large, as well as a report from the state Legislative Analyst's Office (LAO).

In presenting the issue to the CEO board, CCLC President and CEO Scott Lay suggested that the community college system needs to take a position on a tuition increase so we will be part of the discussion; otherwise, he suggested, increased fees would be "done to us" and likely would be much higher than we could support. For example, in June 2009, the LAO released a report that used for discussion purposes a $60-per-semester-unit tuition figure. The current fees are $26 per semester unit and $17 per quarter unit. Scott suggested to the CEO board that the League propose a $30-unit fee with a 10-unit cap to encourage full-time students.

The CEO board adopted a motion to recommend that the CCLC introduce a simple fee policy measure, with discretion on details left to Scott, to ensure we are part of the discussion.

Following is a summary prepared by CCLC staff, presented to the CEO board in December, of recent actions related to a fee policy.

Background
The Consultation Council considered a student fee policy for inclusion in the system's 2010 legislative program. Chancellor's Office staff believed there was not enough support to bring the item to the Board of Governors to consider for inclusion in the program.

At the November statewide CEO meeting, there was widespread support for the CEOCCC/League to consider the introduction of a student fee policy when the Legislature returns for its regular session in January. In doing so, attendees argued, community colleges could "get out in front" of a near-certain fee increase and define how a reasonable fee policy would look.

Staff has engaged a wide variety of constituents to identify the major issues and is preparing for the possible introduction of legislation in January.

CCLC Staff Recommendation
It is recommended that the board direct staff to work with the CEOCCC Executive Committee to prepare student fee policy legislation for introduction in the Legislature.
In doing so, the fee policy should, at minimum, provide that:
• Changes in the fee level are fair, moderate and predictable.
• Changes in the fee level are enacted in a timely basis allowing for planning by students and institutions.
• Increases in revenue from student fees should benefit institutions and not the state General Fund.

ITEM 2.2
CEOCCC
12/09

STUDENT FEE POLICY
(Discussion/Action)

Background
A student fee policy was considered by Consultation Council for inclusion in the system's 2010 Legislative Program. Chancellor's Office staff believed there was not enough support to bring the item to the Board of Governors to consider for inclusion in the program.

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Staff Recommendation
It is recommended that the board direct staff to work with the CEOCCC Executive Committee to prepare student fee policy legislation for introduction in the Legislature.

In doing so, the fee policy should, at minimum, provide that:

- **changes in the fee level are fair, moderate and predictable.** tied to an index;
- **changes in the fee level are enacted in a timely basis allowing for planning by students and institutions.**
- **increases in revenue from student fees should benefit institutions and not the state General Fund.**

Chancellor's Office, California Community Colleges
Draft Legislative Proposal
2010

Subject: Student Fee Policy

Issue: One of the major tenets of the Master Plan for Higher Education is accessibility and affordability of California Community Colleges (CCC). California has consistently maintained the lowest community college fees in the nation (Figure 1). Current law sets fees at $26 per unit; through the budget process, the Governor and the Legislature have the authority to adjust community college fees. Significant fee increases are usually imposed when the state is facing an economic crises, precisely the time when students can least afford increased fees. Further, delays in passing the budget often mean that fee increases come after a student bas registered for classes, requiring the student to pay the additional fee increase mid-term. Neither students nor college administrators can plan appropriately for sudden and spiked fee increases that are frequently determined as part of a last-minute strategy to close the state's budget deficit.

Background: For years the Legislature has tried to establish a policy framework for considering student fee increases, and the Chancellor's Office has often stated that the policy should require that fees be gradual, moderate, and predicable. Instead, community college fee increases have become a regular component of budget deliberations as a budget solution rather than a discussion about what students realistically can be expected to bear. Additionally, the Legislative Analyst's Office (LAO) has long been a vocal advocate in support of community college students paying a greater share of their cost of education. Last year, for example, the LAO recommended that community college fees increase from $26 per unit to $60 per unit on the basis that California Community Colleges fees are the lowest in the country and that students can pursue partial refunds from the new federal American Opportunity Tax Credit.

Many political observers expect that community college student fee increases will be proposed again next year, and the question will be "by how much" rather than "should there be a fee increase."

<u>Proposed solution:</u>

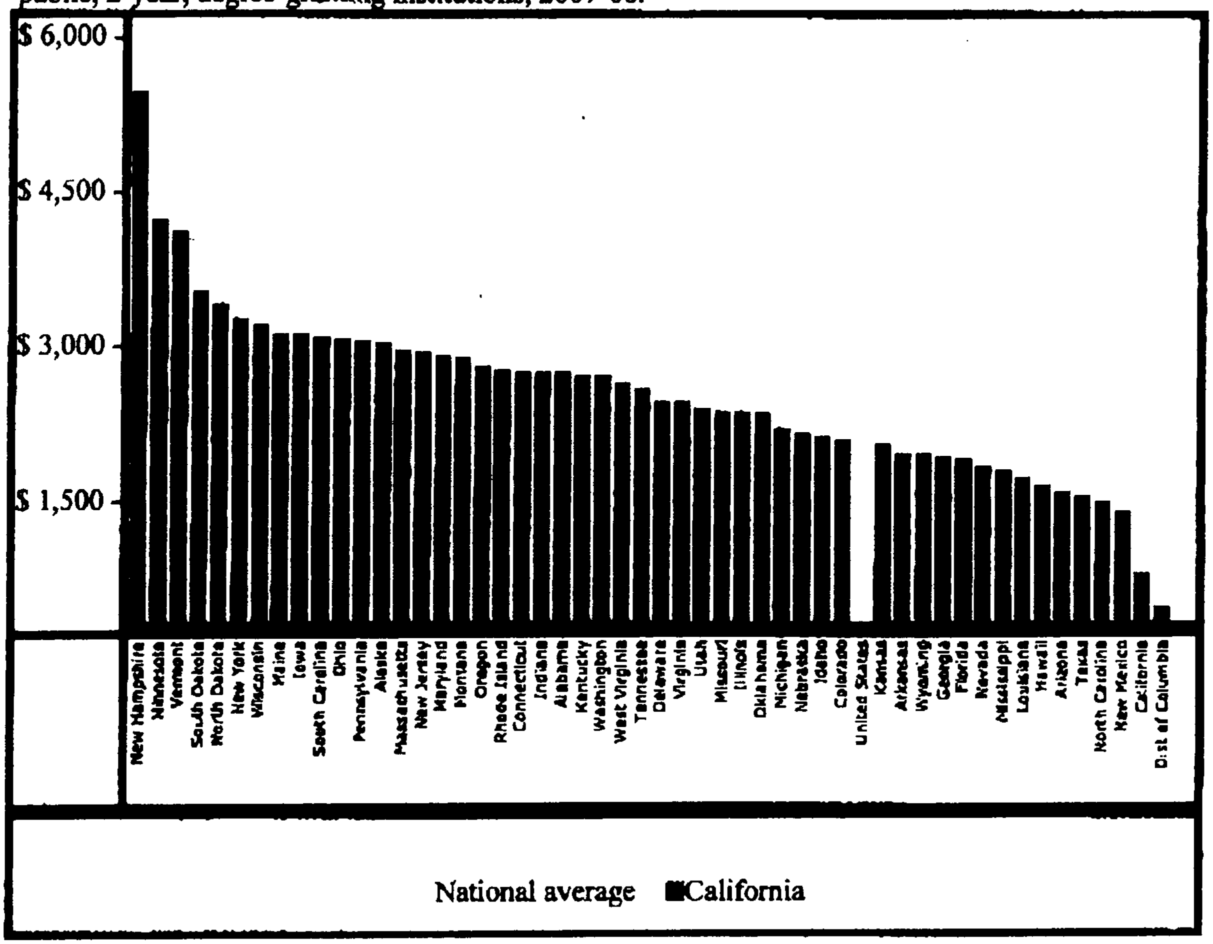
- Student fee increases should be gradual, moderate and predictable.
- Fee increases should not be used to backfill General Fund revenue reductions (amend Education Code Section 84751).
- Fee increases should be tied to the Consumer Price Index (CPI). Historically, the index has increased by about 2.5% per year (see Figure 3).
    - Currently fees are at $26 per unit. Using the CPI index, fees would rise to $26.65 per unit. This increase would add $8.4 million in fee revenues.
- Any fee increases that deviate from the CPI must be approved by a 2/3 vote of the Legislature.

- Any revenues generated from fee increases will be used to augment the system's general apportionment.
- A percentage of the fee increase revenue may be redirected for student financial aid.
- Fees cannot be increased midyear.
- All current fee waiver criteria will be maintained.
- Consider a policy that locks-in fees for students for the duration of their degree or certificate program, if the student agrees to attend college full time and makes steady progress toward the degree or certificate.

Outcomes/Benefits:

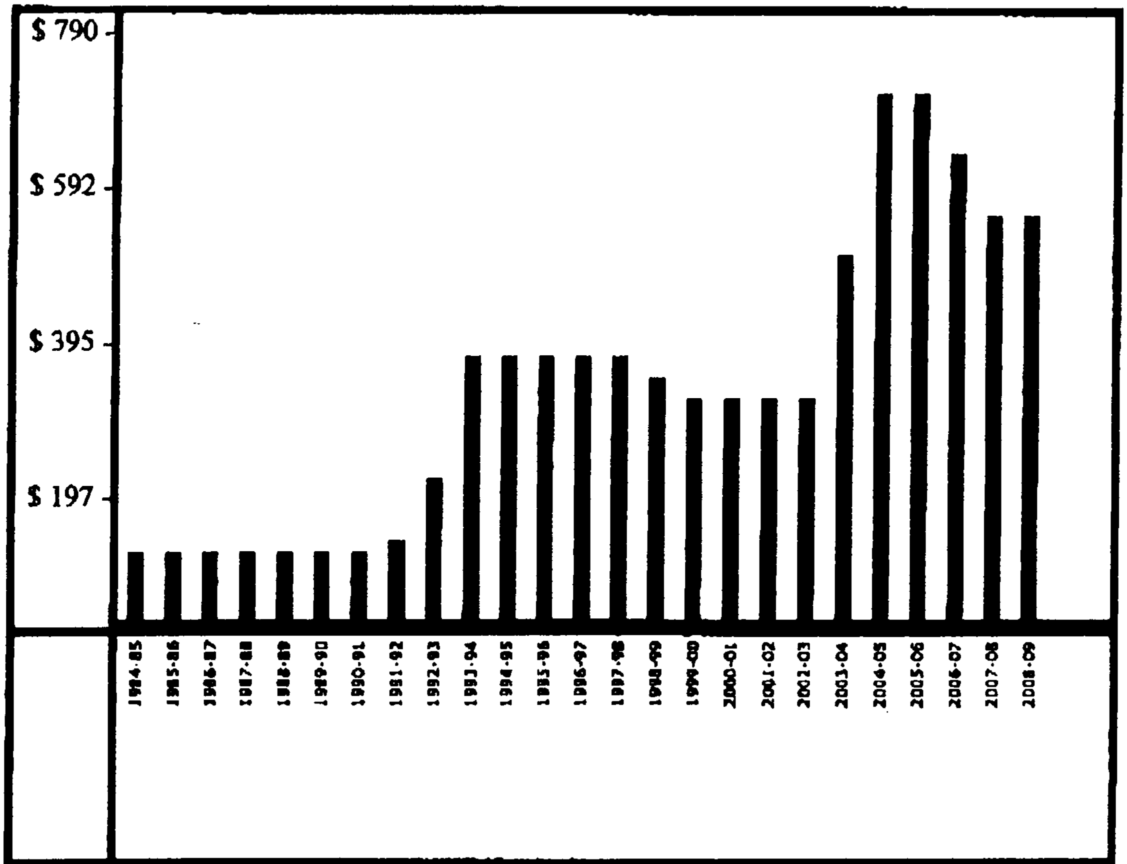
1. A gradual, moderate and predictable student fee policy will help students plan for and reach their academic goals.
2. A policy that provides predictable fee increases helps system administrators plan for the upcoming academic year and prepare materials that inform students and families about the cost of education.

Figure 1: Annual Undergraduate Student Costs
Description
Average annual undergraduate tuition, fees, room, and board charged for full-time students in public, 2-year, degree-granting institutions, 2007-08.



Source: California Postsecondary Education Commission

Figure 2: California Community Colleges State Enrollment Fees
In Actual Dollars



The State Enrollment fee was initially established in 1984.
Currently, it is a per-unit charge with no cap on the total. The fees in the chart are calculated for a full-time student, two semesters at 15 units each.

Source: California Postsecondary Education Commission

CA Consumer Price Index	The California Consumer Price Index is calculated by the State's Department of Finance, in consultation with the California Department of Industrial Relations, and is conceptually based upon the U.S. CPI.
CA Per capita Personal Income	California per capita personal income is derived by dividing the State's total personal income (TPI) by its population. TPI is the sum of all of the money earned by all of the residents of the State in a given year.

Source: California Postsecondary Education Commission

Background: Fee Policy Legislation and Propositions

In recent years, legislation and statewide initiatives have proposed changes to the community college system's fee structure. Most notably was Proposition 92, which was defeated in 2008. Proposition 92 would amend the California Constitution with respect to community colleges' funding, governance and fees. Proposition 92 would have reduced student fees to $15 per unit beginning in Fall 2008 and also would have significantly limited the Legislature's authority to increase fees in subsequent years. The proposal required that any fee increase would require a 2/3 vote of both houses of the Legislature. In addition, the measure limits annual fee increases to the lower of:

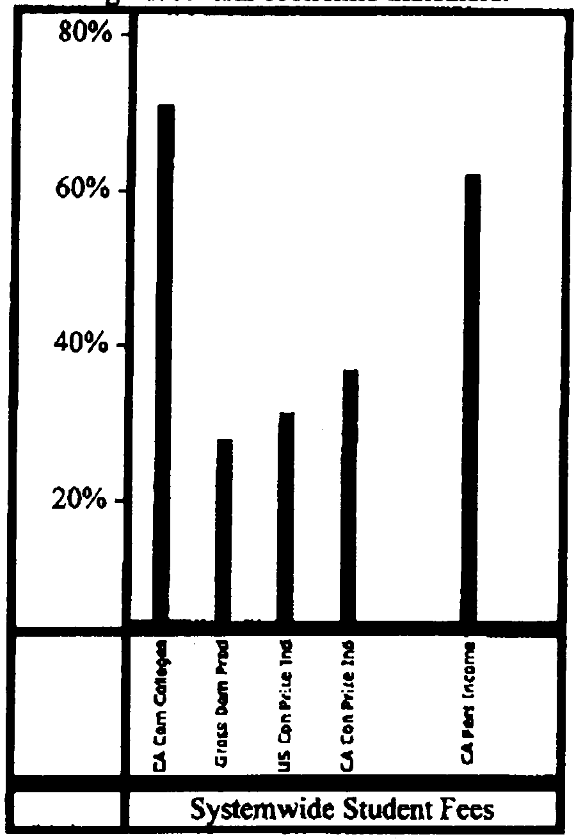
- 10 percent.
- The percentage change in per capita personal income in California (which typically averages about 4 percent).

For example, at $15 per unit, a 4 percent growth in per capita personal income (the lower of the two formulas) would allow for an increase of 60 cents. However, since the measure also requires the rounding down of any fee increase to the nearest dollar, the fee level would remain at $15. The measure would require a simple majority vote in the Legislature in order to reduce fees.

Although there have been several bills introduced over the last few years, most of them have died in the first house with the exception of AB 473 which made it to the Governor's desk in 2006. AB 473 was authored by then Assemblymember Carol Liu who is now a State Senator and member of the Senate Education Committee. AB 473 was introduced in February of 2005 and was vetoed by the Governor in September of 2006. In its final version it directed the Board of Governors to develop an affordability policy to be used for recommending to the Legislature adjustments to student fees using the following principles:

- The State should maintain its primary responsibility to fund the predominant share of the cost of public community college education.
- Any changes in resident student fees should be predictable.

Figure 3: 10 Years - 1998-99 to 2008-09
The chart shows a comparison of the change in resident undergraduate fees charged at California Community Colleges to the change in several economic indicators.



Definitions	
Systemwide Student Fees	Systemwide Student Fees are paid by full-time undergraduate students enrolled for two semesters or three quarters and includes the "State Enrollment" fee.
Gross Domestic Product	The total market value of all the goods and services produced within the borders of a nation during a specified period.
US Consumer Price Index	The United States Bureau of Labor Statistics "Consumer Price Index for All Urban Consumers," or U.S. CPI, is a measure of the average change in prices over time in a fixed market basket of goods and services purchased by U.S. residents. According to the Bureau, the items included in the pricing survey are: food, clothing, shelter, transportation costs, medical and dental care charges, and other goods that people buy for day-to-day living. All of the taxes directly associated with the purchase and use of items are included in the index.

- Community college student fees should not be increased at a rate that exceeds families' ability to pay, as measured by the change in per capita personal income in California during the previous 12 months.
- Any increase in student fees should be accompanied by an increase in student financial aid.
- A decision to increase student fee levels should be made and announced at least six months prior to the effective date of any fee increase, and should take effect only at the start of a new academic term.

The Governor vetoed AB 473 and issued the following message:

"This bill contains five items related to student fees at the California Community Colleges (CCC). The most significant among them are provisions intended to set the stage for implementing a long-term student fee policy for the CCC. The development of a long-term student fee policy, if determined to be in the best interests of the state, should benefit from the input of all the segments of higher education, the Legislature, the Administration, the states agencies focused on higher education issues, the business community and other stakeholders. This bill focuses solely on the Board of Governors and the CCC Chancellor without taking into account a larger state interest."

COMMUNITY COLLEGE LEAGUE OF CALIFORNIA

November 22, 2009

While we were at the League Annual Convention last week, the front pages of this newspapers--from the Los Angeles Times to the New York Times--talked about the response to the decisions made by the University of California Regents to impose a 32% fee hike on students. In addition to making Friday's lunchtime speech by UC President Mark Yudof at our convention quite timely, it also gives us an opportunity for a frank talk on student fees.
In my sixteen years of community college policy work, I've seen the issue from every angle. As my friends at Orange Coast like to remind me, as a student I coordinated rallies opposing any fee increase. I've also supported fee increases to avoid deeper cuts in categorical programs serving the most vulnerable students, such as last summer. My proudest moment, though, was when many organizations reached a consensus on a long-term fee policy in Proposition 92, which would have limited fee increases to changes in per capita personal income and ensured that student programs benefited from the increased revenue, not the state's general fund.
Like it or not, we will face large fee increase proposals next year, and many people believe we should define the debate by introducing a reasonable fee policy. This might include a moderate increase, tied with other policy changes, such as the 10-unit cap on fees that existed until 1993 to encourage full-time enrollment. Others believe that there should be a fee on noncredit courses other than citizenship, basic skills and short-term training. Some people believe the current fee of $26/unit is already an abandonment of the Master Plan; others believe that the current policy hurts the lowest income students who already have their fees waived but who see categorical programs being slashed.
What do you think is reasonable?
Here are a few facts and arguments that shape the debate:
Arguments in favor of a change in fee policy:

California's fees are the lowest in the nation, 36% cheaper than the next lowest state, Texas.
Enrollment fees were waived on 51% of the units taken in 2008-09 through the system's Board of Governors waiver program, which waives fees for virtually any student that fills out a FAFSA and has one dollar of remaining need after state and federal aid.
While voters say they don't support fee increases, 67% of Californians <http://www.ppic.org/content/pubs/survey/S_1109MBS.pdf>support using a sliding scale for college tuition based on income status.

Tens of thousands of students, including many upper income residents, take noncredit courses in areas such as physical fitness and the arts for personal development and are not required to pay any fees, while students taking developmental English and math are required to pay more.
Pell Grants no longer discriminate against students enrolled in states with low fees.
Low fees encourage a casual atmosphere for enrollment, making it easy for students to "walk away" from a class with little personal consequence.
Without an index and predictable fee policy, the Legislature modestly cuts fees during political campaign seasons, and then jacks them up when times are the toughest for Californians.

Arguments against a change in fee policy:

68% of Californians oppose raising fees to make up for the budget cuts to public colleges and universities.
Even with significant outreach about financial aid, students are dissuaded from attending college when fees increase because of "sticker shock."
The Master Plan for Higher Education envisioned a California higher education free of tuition (although incidental and student services fees were envisioned).
An index of student fees will guarantee that we will only get further from the Master Plan.
While California's fees for community college are very low, the total cost of education is on par with many other states, due to California's high cost of living.
Certain nonresident students enrolled under AB 540 are ineligible for state and federal aid and are significantly impacted by fee increases.
The college financing plans of many families have been disrupted in the fiscal crisis. The average 529 college savings plan
<http://www.collegesavings.org/529PlanData.aspx>has dropped from $11,401 in Q4 of 2006 to $9,390 in Q4 of 2008. Backup plans of using home equity have evaporated. This is echoed in the PPIC study, which shows great angst about college affordability.

I start with the most frequent arguments that I hear because this is a complicated and emotional issue. Nevertheless, a fee increase will be on the table next year. While most people would like to avoid the debate, it may be time for us to come together and have a frank discussion on student fees.
How would you respond? Would you like to see in a state fee policy? I encourage you to e-mail me at <mailto:scottlay@ccleague.org>scottlay@ccleague.org. You can influence how the League will respond to these issues when they are inevitably before the Legislature next year.

Have a safe and happy Thanksgiving,

Scott Lay
President and Chief Executive Officer
Orange Coast College '94

LAO
POLICY BRIEF

California Community Colleges:

Raising Fees Could Mitigate Program Cuts and Leverage More Federal Aid

MAC TAYLOR • LEGISLATIVE ANALYST • JUNE 11, 2009

As part of the state's effort to close its budget gap, our office has recommended that the Legislature better leverage federal funds to minimize programmatic impacts on state programs and services. As we discuss in our *2009-10 Budget Analysis Series: Higher Education* (see pages HED-24 to 27) and *Federal Economic Stimulus Package: Fiscal Effect on California* (page FED-18) publications, new federal tax credit provisions allow the state to tap potentially hundreds of millions of new federal dollars for higher education. Because these tax credits will fully reimburse most California Community College (CCC) students for the fees they pay, the state could raise those fees (and revenue for CCC) with no net impact on most students. The purpose of this brief is to provide additional information—in a question-and-answer format—related to our recommendation.

How Do Fee Revenues Interact With General Fund Support for CCC?

Each year, the Governor and Legislature specify a total amount of apportionment (general-purpose monies) and categorical-program funding for the CCC system. Apportionment funding comes from three main sources: the state General Fund, local property taxes, and student enrollment-fee revenues. (Categorical programs are funded entirely by the General Fund.) Local property taxes and fees are retained by the community college districts that collect this funding. The General Fund provides the additional funding needed to meet each district's apportionment amount.

In February, the Legislature enacted a preliminary budget for 2009-10 that provides about $5.5 billion in total apportionment funding for CCC (from all three revenue sources). Based on the current charge of $20 per unit (by far the lowest in the country among two-year public colleges), about $300 million of this amount would come from student fee revenues. If fees were increased above $20 per unit, more CCC funding would come from fees.

So, Would the CCC System Benefit From Higher Fee Revenues?

Some assert that community colleges only "benefit" from a fee increase if the revenues from fee increases expand total funding beyond what had been anticipated (resulting in increased overall apportionment levels, for example). We take a different view. Given the state's poor fiscal outlook, it is almost certain that the Legislature will need to reduce state spending, including funding for CCC, from the levels it had anticipated with the February budget package. (In fact, the Governor's May Revision proposes to reduce CCC spending by almost $700 million in 2009-10.) If this is the case, *General Fund support for CCC will drop irrespective of fee levels.* By increasing enrollment fees, the Legislature could fully or partially backfill the lost General Fund monies with fee revenues—thereby minimizing the impact on programs and services. Thus, community colleges would benefit from a fee increase to the extent that it resulted in more total resources for CCC than would have been available without a fee increase. For this reason, we believe that any revenues generated by a fee increase would supplement (not supplant) the level of support the state is able to provide.

How Would Fee Increases Affect Affordability for CCC Students?

Fee Increase Would Not Affect Needy Students Since They Are Not Required to Pay Fees. In considering any fee increase, the Legislature should consider the potential effects on student affordability and access. For CCC students, affordability is preserved through the Board of Governors' (BOG's) fee waiver program. This entitlement program is designed to ensure that community college fees will not pose a financial barrier to any California resident. It accomplishes this by waiving the fees for all residents who demonstrate financial need. As we detail in the *Higher Education* publication of our *Analysis* series (see page HED-25), the program has relatively high income cut-offs. For example, a student with one child could have an income up to roughly $80,000 and still qualify for fee waivers. In recent years, about 30 percent of all community college students (representing over 40 percent of all units taken) have received BOG fee waivers. In 2008-09, about $225 million in fees were waived.

Federal Government Will Reimburse Most Fee-Paying Students. The vast majority of students who do not qualify for BOG waivers are still eligible for federal financial assistance that covers all or a portion of their fees. Figure 1 summarizes the features of the federal American Opportunity tax credit (AOTC), Lifetime Learning Credit, and tuition and fee tax deduction. As we note in our

Figure 1

Federal Tax Benefits Applied Toward Higher Education Fees

2009

American Opportunity Credit	Lifetime Learning Credit	Tuition and Fee Deduction
• Directly reduces tax bill and/or provides partial tax refund to those without sufficient income tax liability.	• Directly reduces tax bill for unlimited number of years.	• Reduces taxable income.
• Covers 100 percent of the first $2,000 in tuition payments and textbook costs. Covers 25 percent of the second $2,000 (for maximum tax credit of $2,500).	• Covers 20 percent of first $10,000 in fee payments (up to $2,000 per tax year).	• Deducts between $2,000 and $4,000 in fee payments (depending on income level).
• Designed for students who: — Are in first through fourth year of college. — Attend at least half time. — Are attempting to transfer or acquire a certificate or degree.	• Designed for students who: — Already have a bachelor's degree. — Carry any unit load. — Seek to transfer or obtain a degree/certificate—or simply upgrade job skills.	• Designed for any student not qualifying for a tax credit.
• Provides full benefits at adjusted income of up to $160,000 for married filers ($80,000 for single filers) and provides partial benefit at adjusted income of up to $180,000 ($90,000 for single filers).	• Provides full benefits at adjusted income of up to $100,000 for married filers ($50,000 for single filers) and provides partial benefit at adjusted income of up to $120,000 ($60,000 for single filers).	• Capped at adjusted income of $80,000 for single filers and $160,000 for married filers.

Federal Economic Stimulus Package report (pages FED-13 and 14), the American Recovery and Reinvestment Act replaced the Hope credit with AOTC in the 2009 and 2010 tax years. (The Hope tax credit would return in 2011, though the President's budget proposes to make AOTC a permanent program. For details on the Hope tax credit, please see our *Higher Education* report [page HED-25].) As the figure indicates, income thresholds for AOTC are high. For example, students (or their parents) with a family income of up to $160,000 in 2009 are eligible for a federal tax credit equal to their fee payment—as well as textbook costs—for up to $2,000 per year. (The amount of the tax credit is gradually reduced between $160,000 and $180,000 for joint returns; $80,000 and $90,000 for single filers.) Therefore, while students still pay fee and textbook costs up front, they would be reimbursed for this cost as a federal income tax credit. In addition, families or students with insufficient tax liabilities qualify for partial tax refunds (equivalent to 40 percent of qualifying expenses).

Students who do not meet AOTC's academic requirements (such as those who already hold a bachelor's degree or only take one course each term) can qualify for the Lifetime Learning tax credit, which provides a tax credit equal to 20 percent of fees. Finally, those not claiming the credits may be eligible for a tax deduction of the cost of fees. We estimate that roughly two-thirds of CCC students would qualify for full fee aid through the BOG waiver program or AOTC. About 90 percent of CCC students would qualify for either a fee waiver or a full or partial tax offset to their fees.

How Much in New Revenue Could Be Generated by Taking Advantage of Federal Tax Assistance?

The AOTC fully reimburses students for 100 percent of the first $2,000 in tuition, fee, and textbook costs. If the state were to increase fees to up to $60 per unit (or $1,800 for a full-time student), eligible students taking 30 units per year would be able to take full advantage of the tax credit—while leaving room to receive some reimbursement for textbook costs.

In 2008-09, student fee revenues totaled about $300 million. Higher fees would generate about $80 million in additional revenues at $26 per unit (the level in 2006), approximately $120 million in additional revenues at $30 per unit, $225 million in additional revenues at $40 per unit, and roughly $500 million in additional revenues at $60 per unit. Even at $60 per unit, CCC fees for a full-time student would still be among the lowest of the country's two-year public colleges. These monies could effectively backfill a reduction in General Fund support for CCC, which would help mitigate the impact on student service levels. (As we note in the *Higher Education* report [see pages HED-26 to 27], the Legislature might consider setting aside a portion of funding generated by any fee increases for purposes of outreach and technical assistance to students on the federal tax benefits.)

What Effect Could Fee Increases Have on Access and CCC Enrollment Levels?

Over time, CCC's enrollment has fluctuated. Between 2002-03 and 2004-05, enrollment dropped by about 11 percent. During this two-year period, fees increased twice: to $18 per unit (from $11 per unit) in 2003-04; and to $26 per unit in 2004-05. The number of students in the system dropped by approximately 300,000, from 2.8 million in 2002-03 to 2.5 million in 2004-05. This equals a decrease of about 50,000 full-time equivalent students (FTES) in credit instruction between 2002-03 and 2004-05 (plus about 10,000 FTES in *noncredit* courses).

Some cite these earlier fee increases as the cause of enrollment decline. Our analysis suggests that this claim about fees being the sole or even the major cause of enrollment declines is exaggerated. In fact, there are several explanations for the enrollment declines.

Crackdown on Concurrent Enrollment. Much of the decline in enrollment from 2003-04 to 2004-05 was an intended result of statutory and budget changes to address systemic abuses involving concurrent enrollment. Beginning in 2002, the Legislature and Governor became concerned that a number of community college districts were inappropriately, and in some cases illegally, claiming state funding for a rapidly increasing number of high school athletes who were "concurrently enrolled" in CCC physical education courses. For 2003-04 the Legislature reduced funding for concurrent enrollment by $25 million and tightened related statutory provisions. As a result, high school students concurrently enrolled in CCC courses dropped from about 100,000 (headcount) in 2002-03 to about 16,000 in 2004-05 (which translates into 15,000 FTES in 2002-03 to less than 2,000 FTES in 2004-05). Thus, *about one-quarter of the enrollment decline can be explained by a drop in these high school students—which was an intended policy reform entirely unrelated to fee increases.*

Reduced Course Offerings. In a 2005 report to the Legislature on enrollment changes at CCC, the Chancellor's Office suggested that an unknown amount of the enrollment decline can be explained by districts having reduced the number of course offerings. This reduction was in response to concerns by districts about possible cuts to the CCC system budget during this period. Community colleges reduced about 10,000 course sections systemwide between fall 2002 and fall 2003. It was not until spring 2005 that CCC fully restored this courseload. With fewer course offerings, some potential students found there was no space in courses they wanted and thus did not enroll. (This is also a possible explanation for why enrollment in noncredit instruction—which is free for all students—declined during this time period.)

Impact of Fees on Nonneedy Students. Although all financially needy students are eligible to receive a fee waiver and CCC fees remained the lowest in the country, it is likely that some students chose not to enroll in a community college as a result of the higher fees imposed in 2003-04 and 2004-05. As we discussed in our *2006-07 Analysis of the Budget Bill* (page E-252), however, data collected by the Chancellor's Office in 2005 and 2006 revealed no disproportionate effect on students from low-income areas or historically underrepresented racial groups. Also, the data revealed a shift toward traditional college-aged students and an increase in the percentage of students attending a CCC full-time.

In summary, a combination of factors likely contributed to earlier CCC enrollment declines, with fee increases having an unknown effect. Similar to that period, however, it is likely that this year some fee-paying students who would have attended when fees were $20 per unit would choose not to enroll when fees are higher (even if they qualified for a full or partial reimbursement from the federal government). Because these students by definition are not financially needy, their decision not to enroll should not be considered a denial of access, but rather a choice they made about the benefit they would have received from a CCC course.

LAO Publications

This report was prepared by Paul Steenhausen, and reviewed by Steve Boilard. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

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