



December 26, 2023

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code Section 9005, we have reviewed the proposed constitutional measure (A.G. File No. 23-0034) related to creating a new online university administered by the University of California (UC).

Background

California Has Three Public Higher Education Segments. These segments are UC, the California State University (CSU), and the California Community Colleges (CCC). In 2021-22, these three segments together educated a total of 1.6 million full-time equivalent students. Figure 1 provides basic information about each segment. As the figure shows, CCC has the most campuses as well as the highest enrollment. CCC focuses primarily on instruction through the lower-division undergraduate level. Its 116 colleges offer a broad range of programs—from citizenship and English as a Second language courses to culinary arts and welding, calculus and biology. CSU is the next largest segment, focusing primarily on bachelor's and master's programs. It too offers a broad range of programs—from political science and engineering to teaching and nursing. UC is the state's public research university. It offers a wide range of doctoral programs in addition to bachelor's and master's programs.

The LAO logo is centered at the bottom of the page, featuring the letters "LAO" in blue and a golden-yellow building icon to the right.
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Figure 1

Summary of California's Public Higher Education Segments

2021-22

	UC	CSU	CCC
Number of campuses	10	23	116
Total enrollment^a	289,914	394,929	929,957
In-state enrollment	234,242	374,973	899,301
Out-of-state enrollment	55,672	19,956	30,656
Courses offered	<ul style="list-style-type: none"> • Lower-division undergraduate • Upper-division undergraduate • Graduate 	<ul style="list-style-type: none"> • Lower-division undergraduate • Upper-division undergraduate • Graduate 	<ul style="list-style-type: none"> • Lower-division undergraduate • Career technical • Precollegiate
Degrees offered	<ul style="list-style-type: none"> • Bachelor's • Master's • Doctorate^b 	<ul style="list-style-type: none"> • Bachelor's • Master's • Doctorate^c 	<ul style="list-style-type: none"> • Associate's • ADT • Bachelor's^d

^a Reflects number of full-time equivalent students.

^b UC offers a full range of doctoral degrees, including Doctor of Philosophy (Ph.D) degrees in many subject areas, Doctor of Medicine (M.D.) degrees, and juris doctor (J.D.) law degrees, among others.

^c CSU has authority to offer doctoral programs jointly with UC. It also has authority to offer a limited number of independent doctoral programs that do not duplicate UC programs.

^d CCC has authority to offer a limited number of bachelor's degree programs that do not duplicate UC or CSU programs. The community colleges with those degree programs offer corresponding upper-division undergraduate courses.

ADT = Associate's Degree for Transfer.

Admission Criteria Differ Among the Segments. UC has the most selective admission criteria. To be eligible for UC admission, entering freshmen must have completed certain high school courses, generally have obtained high grade point averages (GPA), and generally rank among the top of their graduating high school class. To be eligible for CSU admission, entering freshmen must have completed the same set of high school courses but with a lower GPA expectation. In contrast to the two university systems, community colleges accept all interested applicants. Students may transfer from a community college to a UC or CSU campus, typically after completing certain lower-division courses and meeting transfer-specific minimum GPA requirements.

Extent of Online Course Offerings Varies Notably Across the Segments. Each segment offers courses in person and online. UC offers the bulk of its courses in person. In 2022-23, approximately 15 percent of UC undergraduate courses were taught using an online or hybrid format. (Comparable data is not available for UC graduate courses.) In 2022-23, approximately one-third of CSU instruction was provided using an online or hybrid format. CCC provides the most online instruction. Approximately half of CCC instruction was provided in an online or hybrid format in 2022-23. The segments' existing online and hybrid courses vary in the amount of flexibility they offer, but most of these courses have set times at which students must begin and complete their coursework.

Segments Offer Access to an Increasing Amount of Material Online. Over the past decade, the state has funded the segments to develop more instructional materials that can be offered online at no cost to students. Commonly known as “open educational resources,” these digital instructional materials can be used in lieu of publisher-owned textbooks, thereby reducing students’ instructional materials costs. The segments also have expanded their digital library holdings. UC’s California Digital Library, for example, has digitized nearly 4.7 million volumes since its inception in 2005. UC estimates that it saves approximately \$100 million annually systemwide through its digital library, shared collections, and centralized procurement of digital materials.

Segments’ Core Operations Are Supported by a Combination of Public Funds and Student Tuition Revenue. All three segments rely on state General Fund and tuition revenue to cover their operating costs, including their costs to provide instruction, academic support, student services, technology, and equipment. (CCC also relies on local property tax revenue to cover these costs.) Figure 2 provides key fiscal information for each segment. In 2022-23, the three segments together received a total of \$18.6 billion in state General Fund support and a total of \$8.6 billion in student tuition revenue. Beyond the support that the state provides directly to each of the three segments, it also provides funding for student financial aid—primarily to help students with financial need cover their tuition charges. In 2022-23, the state provided students attending UC, CSU, and CCC with a total of an estimated \$2.6 billion in financial aid support through the Cal Grant and Middle Class Scholarship programs.

Figure 2

Key Fiscal Information for California’s Public Higher Education Segments
2022-23

	UC	CSU	CCC
Total Funding^a			
State General Fund	\$4.4	\$5.1	\$9.1
Student tuition revenue	5.1	3.1	0.4
Tuition Charge^b			
Undergraduate	\$13,104	\$5,742	\$1,380
Graduate	12,852	7,176-17,196	
Professional	17,814-65,588		

^a Reflects total ongoing funding (in billions) from select sources.

^b Reflects systemwide academic-year charge for a full-time student. At UC, new undergraduate students pay a higher tuition rate than continuing undergraduate students. Graduate academic students pay the same rate across disciplines, but tuition rates for professional programs vary, with business, medicine, and law programs having the highest tuition rates. At CSU, graduate students tend to pay the same rate across disciplines, but certain graduate programs have higher tuition rates. Rates shown exclude campus-based fees.

Tuition Charges Vary Across the Segments. As Figure 2 shows, tuition charges are the highest at UC and the lowest at CCC. Within each segment, undergraduate students generally pay the same tuition charge regardless of their campus or academic program. Tuition charges for professional programs at UC and graduate programs at CSU generally are higher than their respective undergraduate tuition charges. In some cases, tuition charges for these types of programs also vary by

discipline, with the highest rates for business, medicine, and law programs. For both undergraduate and graduate students, nonresident (out-of-state) students pay a supplemental charge in addition to tuition. Beyond systemwide tuition and fee charges, students pay various other fees, including for health services, textbooks and other instructional materials, housing, and parking.

UC Is Governed by a Central Board. UC has a governing body known as the Board of Regents. The Board of Regents is comprised of 18 members and 7 *ex officio* members. The board sets certain systemwide policies. For example, it sets student tuition levels, adopts compensation policies for faculty and staff, appoints key campus leadership positions, and allocates funding within the system. The board authorizes the UC Academic Senate (consisting of faculty) to set certain academic policies and approve courses.

Proposal

Creates New Online University. The measure adds a section to the California Constitution that requires the Board of Regents to create a new online university known as the University of California Online (UCO). The measure specifies that UCO is to have its own president, faculty, academic senate, budget, and endowment. The Board of Regents is to appoint the UCO President, who is to have “full power to create, implement, administer, and lead UCO.” If the office of the UCO President is vacant for 90 days for any reason, the Governor is to make the appointment. The UCO President is to serve at the pleasure of the appointing entity and be an *ex officio* member of the Board of Regents.

Requires UCO to Offer All Public Postsecondary Courses to All Who Apply. The measure requires UCO to offer every unique course and program listed in every UC, CSU, and CCC campus catalog generally in an online format. All people (in and out of state) are to be able to take UCO courses on a not-for-credit or for-credit basis. Students are to be able to undertake courses at their own pace—taking tests, turning in assignments, and completing courses on their own schedule. Students can be required, however, to take exams in person. Some courses also may require students to complete laboratory coursework in person on a UCO-determined schedule. Moreover, all for-credit medical residency and fellowship courses can be taught in person on a UCO-determined schedule.

Generally Charges Tuition to Cover Course Costs. Students taking courses for credit are to pay tuition, with the tuition charge varying by course. The tuition charge for a particular course is to be set at the level required to deliver that course. The measure does not provide specific guidance regarding how UCO is to attribute all of its costs by course. Students taking courses on a not-for-credit basis are not to pay tuition, but they are to cover the cost associated with questioning their professors, accessing instructional materials, and conducting any required in-person laboratory coursework.

Charges Out-of-State Students Fees, With Revenue for Specified Purposes. Although all students (in and out of state) enrolling on a for-credit basis are to pay tuition, out-of-state students are to pay additional fees. The UCO President is to maximize these fees while also making the fee structure need based, meaning high-income out-of-state students would be charged the highest fee and the lowest-income out-of-state students could be charged no fee. The resulting fee revenue is to be used for in-state student scholarships, student food pantries, child care facilities, libraries, student housing, and “anything else to the benefit” of in-state UCO students.

Includes Three Additional Notable Provisions. First, UCO would be required to house all digital libraries from UC, CSU, and CCC. Second, the measure would require the Board of Regents and the UCO President to establish a nonprofit UCO Bookstore stocking all UCO, UC, CSU, and CCC textbooks. Third, the measure requires the State Treasurer to issue bonds to fund UCO. UCO, in turn, is to repay these bonds using the tuition revenue it collects.

Fiscal Effects

Creating and Operating UCO Would Entail Substantial Costs. These costs include identifying each unique academic course and program offered by UC, CSU, and CCC; creating and periodically updating thousands to tens of thousands of courses; hiring and compensating faculty to teach these courses; purchasing and maintaining equipment and technology to support online courses; acquiring some classroom and laboratory space as well purchasing and maintaining equipment for that space; and employing administrators, UCO Bookstore staff, and support staff. UCO costs would depend on several key factors, including enrollment demand among in-state and out-of-state students, class sizes, employee compensation levels, and the interest costs on the bonds sold to finance the university. Under the measure, students collectively cover UCO costs through tuition, with no portion intended to be borne by the state. Before any tuition revenue is generated, UCO however would incur certain costs, including initial debt service costs. The measure does not indicate how UCO is to cover those initial costs.

After Considerable Upfront Costs, Annual Ongoing Costs Could Be in the Hundreds of Millions to Low Billions of Dollars. We estimate that UCO would spend at least hundreds of millions of dollars on a one-time basis upfront to create courses, purchase technology, acquire some classroom and laboratory space, and hire staff. We anticipate these costs would be spread over several years as the launch of the university involves offering a wide range of course offerings. Thereafter, for the next decade or so, we estimate annual ongoing UCO costs in the hundreds of millions to low billions of dollars. This large cost range is due to key factors—including enrollment demand for the university—being unknown at this time. Importantly, UCO tuition charges per course could vary notably depending upon enrollment demand, in-person requirements, type of faculty employed, their associated teaching load expectations, and class size expectations. The level of tuition charges, in turn, could affect enrollment demand.

Tens of Millions to Hundreds of Millions of Dollars in Out-of-State Fee Revenue Could be Generated for Specified Purposes. We estimate the fees that out-of-state students pay initially could generate tens of millions to hundreds of millions of dollars for in-state scholarships, student food pantries, child care facilities, libraries, student housing, and other benefits for in-state students. As with the above fiscal estimates, this estimate also is subject to significant uncertainty, particularly because of the unknown enrollment demand for UCO courses among out-of-state students. Similar to the impact of tuition levels, the level of out-of-state fees also could affect enrollment demand.

Measure Exposes the State to Some Risk. Creating the online university poses uncertainties that put the state at fiscal risk. Most importantly, in the near term, were the state Treasurer to sell bonds to finance UCO but UCO never became viable (for example, due to low student demand or high tuition levels), the state might choose to help UC address the fiscal loss by ensuring UC had funds to repay those initial bonds. Over the longer term, were UCO to encounter operational challenges, including unexpected enrollment declines, the state also might choose to help UC support the online university

temporarily until UCO regained its fiscal footing. Additionally, were students attending UCO to be deemed to qualify for certain state financial aid programs, associated costs could increase. The magnitude of the increase would depend on the specific financial aid programs deemed open to UCO students, along with the number of students eligible for those aid programs who enroll at UCO and who would not otherwise have enrolled at a UC, CSU, or other campus participating in those aid programs.

Measure Could Result in State Savings. Although exposure to the state is possible under certain conditions, some savings to the state is possible under other conditions. 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. If this redirection were to occur, the state would see savings as a result of no longer subsidizing the education of those students or providing them with financial aid.

Summary of Fiscal Effects

- Operating a new public online university could cost in the hundreds of millions of dollars to low billions of dollars annually. All of the cost is to be covered through student tuition revenue generated by the new university. The measure is not intended to have any direct fiscal impact on state or local governments.

Sincerely,



Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance