Date of Hearing: April 23, 2024

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Mike Fong, Chair
AB 3112 (Essayli) – As Introduced February 16, 2024

SUBJECT: Postsecondary education: tuition increases: Consumer Price Index.

SUMMARY: Prohibits the California Community Colleges (CCC), California State University (CSU), or independent institutions of higher education, from increasing their tuition by more than the U.S. Consumer Price Index (CPI) from the previous year, beginning in 2029-30. Prohibits the University of California (UC), as a condition of receiving the Cal Grant, from increasing tuition by more than the CPI from the previous year, beginning in 2029-30. Specifically, **this bill**:

1) Prohibits, commencing in 2029-30, California's higher education institutions from increasing tuition above the CPI from the preceding year.

2) Prohibits, beginning in 2029-30, and as a condition of receiving Cal Grant Awards, the UC from increasing tuition costs above the CPI from the preceding year.

EXISTING LAW:

1) Establishes the Donahoe Higher Education Act, setting forth the mission of the UC, CSU, and CCC; and, defines "independent institutions of higher education" as nonpublic higher education institutions that grant undergraduate degrees, graduate degrees, or both, and that are formed as nonprofit corporations in California and are accredited by an agency recognized by the United States Department of Education (Education Code (EC) Section 66010, et seq.).

2) Establishes the UC as a public trust to be administered by the Regents of the UC; and, grants the Regents full powers of organization and government, subject only to such legislative control as may be necessary to insure security of its funds, compliance with the terms of its endowments, statutory requirements around competitive bidding and contracts, sales of property and the purchase of materials, goods and services (Article IX, Section (9)(a) of the California Constitution).

3) Establishes the CCC, a postsecondary education system in this state, under the administration of the Board of Governors; and, specifies that the CCC consist of community college districts (EC Section 70900).

4) Establishes the CSU administered by the Board of Trustees, and provides that the Trustees shall have the full power over the construction and development of any CSU campus and any buildings or other facilities or improvements (EC Section 89030, et seq.).

FISCAL EFFECT: Unknown

COMMENTS: *Purpose of the measure*. According to the author, "California students are facing an affordability crisis trying to obtain an education as colleges and universities implement outrageous tuition increases. AB 3112 will limit the percentage that tuition can be increased by the University of California system, the California State University system, and private universities by capping any such increase to the percentage growth of the United States Consumer Price Index for the prior year."

Further, the authors states that, "it is the responsibility of these institutions to find solutions to their ongoing financial struggles that do not transfer costs to students already drowning in debt. This bill will help to ensure that California universities remain affordable for all students. This bill would help to eliminate inequalities by keeping tuition costs at an affordable price, and allowing students and future students the ability to be aware of what future costs at their university could be."

CPI. The CPI measures the monthly change in prices paid by U. S. consumers. The U. S. Bureau of Labor Statistics (BLS) calculates the CPI as a weighted average of prices for a basket of goods and services representative of aggregate U. S. consumer spending. The CPI is one of the most popular measures of inflation and deflation. In March 2024, the CPI rose 3.5% over the last 12- months before seasonal adjustment. The index rose 0.4% in March on a seasonally adjusted basis, which was the same increase as in February 2024. The chart below, from the BLS, shows the 12-month percentage change for March 2024, and is not seasonally adjusted.

12-month percentage change, Consumer Price Index, selected categories, March 2024, not seasonally adjusted

Category	12-month percent change, Mar 2024
All items	3.5%
Food	2.2%
Food at home	1.2%
Cereals and bakery products	0.2%
Meats, poultry, fish, and eggs	1.3%
Dairy and related products	-1.9%
Fruits and vegetables	2.0%
Nonalcoholic beverages and beverage materials	2.4%
Other food at home	1.4%
Food away from home	4.2%
Full service meals and snacks	3.2%
Limited service meals and snacks	5.0%
Energy	2.1%
Energy commodities	0.9%
Fuel oil	-3.7%
Gasoline (all types)	1.3%
Energy services	3.1%
Electricity	5.0%
Natural gas (piped)	-3.2%
All items less food and energy	3.8%
Commodities less food and energy commodities	-0.7%
Apparel	0.4%
New vehicles	-0.1%
Used cars and trucks	-2.2%
Medical care commodities	2.5%
Alcoholic beverages	2.4%
Tobacco and smoking products	6.8%
Services less energy services	5.4%
Shelter	5.7%
Rent of primary residence	5.7%
Owners' equivalent rent of residences	5.9%

The CPI is widely used by financial market participants to gauge inflation and by the Federal Reserve to calibrate its monetary policy. Businesses and consumers also use the CPI to make informed economic decisions. Since CPI measures the change in consumers' purchasing power, it is often a key factor in pay negotiations. Further, CPI data is used to determine economic policy. With a target inflation rate of 2%, the Federal Reserve may enact expansionary monetary policy to stimulate the economy should market growth slow, or enact contractionary monetary policy should the economy (and therefore prices) grow too quickly. In response to higher-than-desired inflation rates via the CPI, the Federal Reserve adjusts the Federal Reserve fund rate.

How is tuition determined? The UC Regents and the CSU Trustees ultimately decide on systemwide tuition and fees, respectively. Some campuses of each system may also have additional fees associated with attending a particular campus.

Recent tuition changes UC and CSU. According to the UC, "the UC campuses rely on tuition, as well as state funding support, to provide the people, services, and facilities critical to offering a world-class education and serving large numbers of students from all walks of life. The UC has raised tuition only once in the last 10 years, by about $300. At the same time, the UC has and continues to enroll a growing number of California students. UC has added more than 19,000 California undergraduates since fall 2015."

Further, the UC contends that, "recent proposed increases in state support have addressed some of the UC's needs, but they have not fully kept pace with enrollment growth and other rising expenses. As a result, the UC faces a growing budget shortfall that could limit its ability to serve students and sustain its world-class academic and research facilities."

The UC Regents approved a multiyear Tuition Stability Plan on July 22, 2021. According to the UC, the Plan provides unprecedented predictability for students and families in helping to manage their educational costs while allowing the UC to provide greater financial aid for the majority of UC's lowest income students, preserve the excellence of its academic and research programs, and expand enrollment of California students.

Beginning in Fall 2022, tuition was adjusted for each incoming undergraduate class, but subsequently will remain flat until the student graduates, for up to six years. For undergraduates who first enrolled in fall 2021 or earlier tuition will stay flat at current rates for the duration of their enrollment, up to six years.

Committee Staff understands that the Tuition Stability Plan will be up for reauthorization by the Regents within five years.

For the past 12 years, the CSU has kept tuition low, only increasing tuition in 2017, by $270. In fact, currently, CSU tuition and campus fees at most CSU campuses are below $8,000 per year, which is below the national average of nearly $10,000 per year.

The CSU Regents voted in their September 2023 Board meeting to raise tuition 6% annually for the next five years. The first increase will go into effect for all tuition-paying students Fall 2024. For in-state undergraduates, this will be an increase of $342, rising tuition to $6,084 per year. After five years, annual undergraduate tuition will be $1,940 more than it was in the 2023-24 academic year.

According to the CSU, as one of the long-term financial sustainability solutions, the multi-year tuition proposal would apply to the following systemwide tuition and fee categories: systemwide tuition, nonresident tuition, and the graduate business professional fee (for simplicity purposes, these will be referred to collectively as "tuition"). Under this proposal:

1) Annual tuition increases would apply to all students at every level of education.

2) Tuition would increase by 6% each year for all students.

3) Tuition increases would span five academic years. The increases would begin with the 2024-2025 academic year and sunset at the end of the 2028-2029 academic year. These would be permanent rate increases, not temporary rate increases.

4) At the end of the 2028-2029 academic year, tuition rates will remain at that level until the Board of Trustees takes another action, if any, for 2029-2030 and beyond. In other words, tuition rates will not return to 2023-2024 levels in 2029-2030.

5) The Chancellor's Office would begin, in July 2027, an assessment of the approved tuition schedules and would report findings to the Board of Trustees in January 2028. The assessment would use several data sets to evaluate whether tuition increases met the tuition policy guiding principles and policy elements established.

6) Upon review of the assessment's findings, the Board of Trustees would determine any tuition rate changes for 2029-2030 and beyond.

The CSU states that, "the proposed tuition increase of $342 per resident undergraduate student would take the annual tuition price from $5,742 per student to $6,084 reflecting a 6% rate increase in 2024-2025. Similar rate increases are proposed for nonresident tuition, as well as graduate, doctoral, and teacher credential programs. The proposal would generate $148 million of revenue in the first year (2024-2025) and would dedicate $49 million in the operating budget plan to the State University Grant (SUG) program for financial aid support for students. Over the first five years of the tuition increase, the proposal would generate $860 million with a commitment of $280 million for financial aid."

Committee comments. This measure seeks to prohibit the CCC, CSU, or independent institutions of higher education, from increasing their tuition by more than the CPI from the previous year, beginning in 2029-30; and, prohibits the UC, as a condition of receiving the Cal Grant, from increasing tuition by more than the CPI from the previous year, beginning in 2029-30.

As noted in the *How is tuition determined* section of this analysis, the CSU Trustees and the UC Regents vote to set tuition and fees for students. This measure could usurp the authority of the CSU Trustees and UC Regents.

As drafted this measure could actually increase costs of tuition for students and create a floor not a ceiling because the CPI typically remains in flux and consistently changes. Further, this measure could also result in students and families not having as much predictability and transparency as it relates to their systemwide tuition and fees because of the nature of the relatively inconsistent changes of the CPI.

Further, the State is committed, to the extent possible, to cover all systemwide tuition and fees for all Cal Grant recipients, but under this measure, times when the CPI outpaces increases to the Cal Grant, that could result in CSAC not having enough resources to be able to fully cover the Cal Grant awards for all eligible students.

Arguments in support. According to the Cal State Student Association (CSSA), "over the years, particularly during challenging budget cycles, the CSU has often resorted to tuition hikes to compensate for decreases in state funding. A stark example occurred in 2009 when the CSU Board of Trustees approved a staggering 10% tuition increase in May, followed by an additional 20% hike in July, despite a negative 0.4% CPI for that year. More recently, the Board voted for a 6% annual tuition increase over the next five years, culminating in a projected 34% hike by 2029.

Further, CSSA contends that, "AB 3112, which would take effect from the 2029-30 academic year, seeks to curtail excessive tuition hikes by tying them to the percentage growth of the United States CPI for the preceding calendar year. This prudent measure allows colleges to adjust tuition in line with economic realities while ensuring that increases remain proportional to the cost of living. By doing so, it safeguards against unaffordable tuition spikes, especially during economic downturns."

Arguments in opposition. The UC, in their opposition letter, states that, "UC appreciates the value of keeping higher education affordable for our students. In 2021, the Regents approved a multiyear Tuition Stability Plan to help students and families budget for a UC education. Beginning fall 2022, tuition has been adjusted for each incoming undergraduate class but with a guarantee that the cohort's tuition level will subsequently remain flat until the student graduates, for up to six years."

According to the UC, "the Tuition Stability Plan is tied to a three-year average of the California Consumer Price Index. However, the UC Regents can adjust tuition and fees in response to budget challenges, such as bargaining agreements or funding cuts from the state, in order to responsibly manage the University's budget while protecting the student experience."

The UC further states that, "AB 3112 would restrict the UC's ability to budget appropriately. Our Tuition Stability Plan provides unprecedented stability and predictability for families seeking to manage educational costs while allowing the University to provide greater financial aid for the majority of UC's lowest income students, preserve the excellence of its academic and research programs, and expand enrollment of California students."

Prior legislation. ACA 10 (Valladares) of the 2021-22 Legislative Session, which was not referred out of the Assembly Committee on Rules, would prohibit the UC Regents from increasing the total amount of tuition and mandatory systemwide fees charged to UC students above those in effect as of June 15, 2021, until the 2027–28 academic year. Commencing with the 2027–28 academic year, the measure would require any increase in the total amount of tuition and mandatory systemwide fees charged to students for an upcoming academic year to be approved by the UC Regents before June 15 preceding the academic year to which the increase would apply.

AB 2495 (Choi) of the 2019-20 Legislative Session, which was held by this Committee, in part, would require that the tuition and mandatory systemwide fees set for California residents in each incoming first-year class under would not be increased until at least six academic years have elapsed from the date that class commenced its attendance at the UC and CSU.

AB 1224 (Baker) of the 2015-16 Legislative Session, which was held by this Committee, in part, would require, for the 2016–17 academic year, and every year thereafter, the California Student

Aid Commission (CSAC) to cap individual Cal Grant A and B Entitlement awards, California Community College Transfer Entitlement awards, and Competitive Cal Grant A and B awards at a specified amount, and would authorize CSAC to annually adjust that amount to reflect changes in the CPI, as calculated by the BLS.

REGISTERED SUPPORT / OPPOSITION:

Support

California State Student Association

Opposition

Association of Independent California Colleges & Universities (AICCU)
California State University, Office of The Chancellor
University of California

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