

# AB 656 — Higher Education: Oil and Natural Gas Extraction Tax

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## OVERVIEW

- AB 656 provides a stable, dedicated funding source to augment state support for public higher education instruction.
- AB 656 creates the California Higher Education Fund (CHEF) to receive revenues from a 9.9% tax placed on oil and natural gas extracted in the state. (By comparison, Alaska has an oil and natural gas extraction tax of 25%.)
- California – the nation’s third-largest producer of oil – is the only oil-producing state that does not have an ongoing “extraction” (sometimes called “severance”) tax.
- The CHEF is modeled after a Texas foundation in place for nearly 100 years that uses revenues from investing their extraction tax proceeds to fund construction costs at the University of Texas.
- The CHEF would allocate funds to the California Community Colleges, the California State University, and the University at California to pay for instructional costs.
- The board overseeing CHEF would be comprised of appointees by the CSU Board of Trustees, UC Board of Regents, Community College Chancellor, Assembly Speaker, State Treasurer and Senate Rules Committee, and would include a CSU and UC employee and student.
- AB 656 contains oversight provisions to prevent oil and natural gas extractors from passing the new tax onto consumers through higher prices for oil, natural gas and related products.
- During periods of declining state support for higher education and consecutive multi-year increases in student fees, AB 656 will provide a stable source of funding across all segments of public higher education.

## BACKGROUND

A recent Public Policy Institute of California (PPIC) study concluded California’s need for college-educated workers is outpacing the state’s ability to produce them – and that gap is expected to widen in the future.

The PPIC report concluded that the growing unmet need for an educated workforce will undermine California’s ability to address the state’s current economic crisis and future economic growth.

Unfortunately, the state general fund is unable to fulfill this need and state funds are being taken away rather than supplied. Therefore, to address the state’s economic needs the state must find additional resources to fund higher education to keep pace with the state’s growing demand for a skilled workforce.

At the CSU alone, years of budget cuts already have resulted in thousands of *eligible* students being denied access, while students fortunate enough to enroll at a CSU campus face mounting fee increases and deep cuts in the number of classes available.