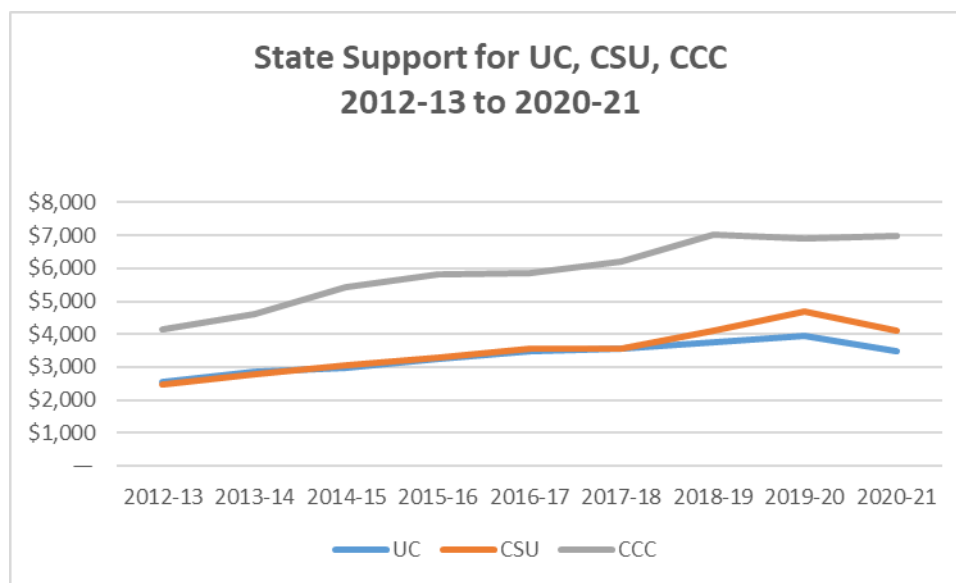


COVID-19 Budget Impacts on California Higher Education

California's colleges and universities face increased costs, lower revenue, and diminished state support in 2020 due to the COVID-19 pandemic and subsequent recession. Campuses are cutting costs, using reserves and borrowing both internally and externally to weather dramatic changes. Students face numerous challenges, from technology needs, lost jobs, isolation and more difficulties accessing support services. A May survey of over 70,000 California college students conducted by the California Student Aid Commission found that more than seven in ten students had lost some or all of their income, almost half had experienced a change in their living arrangements, and a quarter had dropped courses in spring 2020.

After eight years of increasing state investment in higher education - General Fund support for California's public higher education segments grew from about \$9.3 billion in 2012-13 to \$15.5 billion in 2019-20 – the 2020 Budget Act marked the first decrease in state support in nearly a decade. Below is a brief summary of some of the costs campuses have incurred this year, information regarding one-time federal funding received by public and private segments this year, and a short description of the 2020 Budget Act for higher education.



Notes: Data provided by the Legislative Analyst's Office. Dollar amount in millions. Includes General Fund and Proposition 98 General Fund. This chart includes more than \$1.45 billion in community college funding in 2019-20 and 2020-21 that is deferred until 2021-22.

Colleges' costs

COVID-19 forced campuses to move most operations on-line, and brought significant and unexpected costs. Overtime, technology, testing, and professional development for faculty and staff were some of the new cost-drivers. In addition, colleges suffered major losses in revenue in housing, parking and on-campus retail operations. It is difficult to make an apples-to-apples comparison of costs and funding losses by segment, but below are examples of some reported numbers:

- The University of California (UC) reported \$2.3 billion in costs and lost-revenue due to COVID-19 through September. About half of that was at the campus level, the other half was at UC's medical centers.
- The California State University reported estimated costs and revenue losses of more than \$758 million in Spring and Fall 2020.
- An estimate of costs and lost revenue at California Community Colleges suggests \$150.6 million in costs and refunded tuition revenue in 2019-20, and \$201.8 million in estimated expenses in 2020-21.
- A survey of private non-profit institutions conducted by the Association of Independent California Colleges and Universities in the Spring showed more than \$180 million in lost revenue alone, largely related to the closure of residence halls and on-campus dining.

Federal stimulus

Higher education institutions benefitted from new federal funding this year, which offset some costs. Data compiled by the Legislative Analyst's Office shows that campuses and students received about \$1.9 billion in funding, including more than \$850 million for direct student financial aid. Almost all of this funding went directly from the federal government to campuses. About \$54 million from the federal Coronavirus Relief Fund was provided to community colleges through the 2020 Budget Act. (This funding was paired with \$66 million in one-time state funding to create a \$120 million basic needs/learning loss/COVID 19 response block grant for colleges.)

It is important to note this federal funding is one-time revenue, which limits its use for ongoing costs such as employee salaries. The chart on the next page details federal funds provided to higher education segments in California.

Federal COVID-19 Funds by Higher Education Segment

(In Millions)

Funds	California Community Colleges	California State University	University of California	Other public institutions	Private nonprofit institutions	Private for-profit institutions	Total
Higher Education Emergency Relief Fund ^a							
Formula-Based Grants: Student Aid	\$289.8	\$262.7	\$130.0	\$2.2	\$83.8	\$85.0	\$853.6
Formula-Based Grants: Institutional Relief	289.8	262.7	130.0	2.2	83.8	85.0	853.6
Minority-Serving Institutions	33.4	38.3	7.4	—	4.5	—	83.6
Institutions With Unmet Need ^b	0.4	—	—	5.3	27.0	—	32.775
Subtotals	(\$613.5)	(\$563.7)	(\$267.5)	(\$9.7)	(\$199.2)	(\$170.0)	(\$1,823.6)
Coronavirus Relief Fund ^c	\$54.0	—	—	—	—	—	\$54.0
Totals	\$667.4	\$563.7	\$267.5	\$9.7	\$199.2	\$170.0	\$1,877.5

^aFunds were allocated by the U.S. Department of Education directly to institutions in spring 2020 to help them respond to the effects of COVID-19. Institutions have one year to spend the funds. Excludes CARES Act funding that higher education institutions might have received for other purposes, such as research and development.

^bExcludes funds (\$28 million nationally) that will be awarded through a competitive process. As of October 2020, recipients have not yet been announced.

^cFunds were allocated as part of the state's 2020-21 budget package. Colleges have until December 30, 2020 to spend these funds.

COVID-19 = coronavirus disease 2019. CARES = Coronavirus Aid, Relief, and Economic Security Act.

The 2020 Budget Act

While the 2020 Budget Act included some increases to specific programs – increased funding for two medical school programs at UC, for example, and support for higher pension and retiree health benefit costs at CSU – there were overall reductions in state support for universities, and significant deferred payments to community colleges. These cuts and about half of the community college deferrals could have been avoided had the state received further federal stimulus funds by October, but those funds did not materialize.

Ongoing General Fund was reduced by about 7% at UC when compared to the previous year, and about 6% at CSU. Instead of base cuts to community colleges, the Budget Act relied mostly on deferrals. Specifically, the revised 2019-20 Budget includes \$330 million in community college payment deferrals. The 2020-21 Budget maintains these deferrals and adopts slightly more than \$1.1 billion in additional deferrals. Combined, \$1.45 billion in Proposition 98 funds for 2020-21 college operations will be paid late—in the first half of the next fiscal year. These deferrals require colleges to use cash reserves or borrow internally or externally to continue programs at current levels.

The Legislature sought to minimize the impact of reductions on students in several ways:

- First, the Budget Act specifies legislative intent that both university segments use a portion of their operating reserves to offset some of the state General Fund reductions, thereby mitigating the programmatic impact. CSU had about \$1.7 billion in reserves and UC about \$1 billion going into the 2020-21 fiscal year.

- Second, the Budget Act allows the universities to redirect unspent deferred maintenance funds provided in 2019-20 (an estimated \$146 million for CSU and \$21.6 million for UC) to help cover instruction and other operating costs in 2020-21.
- Third, the Budget Act requires UC and CSU to report to the Legislature and Department of Finance (DOF) on the actions they are taking to address their General Fund reductions. Each segment's report must describe how these actions were decided and how they minimize harm to low-income students, students from underrepresented minority groups, and other disadvantaged students.
- As noted previously, the Budget Act paired federal and state funding to provide a \$120 million one-time block grant to community colleges to address student basic needs, technology costs and address learning loss. Colleges are required to report how this funding will be spent.

It is important to note that overall funding for student financial aid programs – most notably the Cal Grant and Middle Class Scholarship – actually increased in the Budget Act.

UC, CSU and community college officials will testify at this hearing about how they are handling budget challenges. All systems are using reserves to offset some revenue losses. Layoffs have occurred or are planned on some campuses, and many campuses have implemented some type of hiring freeze. Additionally, some community colleges have reduced course offerings.

Both UC and CSU provided reports to the Legislature earlier this month describing strategies they are using this year to handle declining state General Fund support and minimizing harm to the most at-risk students. UC, for example, preserved the small amount of General Fund - \$52 million – that they use for financial aid. CSU reports making larger cuts to campuses with fewer needy students, as measured by the number of students who receive the federal Pell Grant.

The charts on the following page depict operating budgets at the three public higher education segments during the current fiscal year and previous two years.

University of California	2018-19 Actual	2019-20 Estimated	2020-21 Budgeted	% Change, 19-20 to 20-21
Ongoing General Fund	\$3,475	\$3,724	\$3,465	-7%
One-Time General Fund	\$268	\$214	\$1	-99.7%
Other Core Funds	\$5,309	\$5,458	\$5,523	1.2%
Total Core Operations Budget	\$9,052	\$9,396	\$8,989	-4.3%

Notes: Data provided by the Legislative Analyst's Office. Dollars in millions. Other Core Funds includes revenue such as tuition, lottery, and some federal funds. Tuition revenue for 20-21 based on pre-COVID estimate.

California State University	2018-19 Actual	2019-20 Estimated	2020-21 Budgeted	% Change, 19-20 to 20-21
Ongoing General Fund	\$3,931	\$4,351	\$4,100	-5.8%
One-Time General Fund	\$163	\$345	0	-100%
Other Core Funds	\$3,347	\$3,329	\$3,325	-0.1%
Total Core Operations Budget	\$7,441	\$8,025	\$7,425	-7.5%

Notes: Data provided by the Legislative Analyst's Office. Dollars in millions. Ongoing General Fund includes pension and retiree health benefits. Other Core Funds includes revenue such as tuition, lottery, and some federal funds. Tuition revenue for 20-21 based on pre-COVID estimate.

California Community Colleges	2018-19 Actual	2019-20 Estimated	2020-21 Budgeted	% Change, 19-20 to 20-21
Proposition 98 General Fund	\$6,117	\$6,247	\$6,183	-1%
Local Property Tax	\$3,094	\$3,192	\$3,305	3.5%
Other State and Local Funds	\$6,758	\$6,575	\$6,777	3.1%
Total Core Operations Budget	\$15,969	\$16,014	\$16,265	1.6%

Notes: Data provided by the Legislative Analyst's Office. Dollars in millions. This chart includes funding which is deferred; actual cash from the state to colleges is less than depicted here. More than \$1.45 billion in community college funding in 2019-20 and 2020-21 is deferred until 2021-22. Other State and Local Funds includes items such as tuition, pension payments, and General Fund to support Chancellor's Office operations.