

FEBRUARY 1, 2021

The 2021-22 Budget: Overview of Higher Education Budget

PRESENTED TO:

Assembly Budget Subcommittee No. 2
On Education Finance
Hon. Kevin McCarty, Chair



LEGISLATIVE ANALYST'S OFFICE

Recap of Key 2020-21 State Budget Actions

- **No Base Increases for Higher Education Segments**
 - None of the three public higher education segments received base increases or cost-of-living adjustments (COLAs).
- **Large Community College Payments Deferrals**
 - The California Community Colleges (CCC) saw no base reductions, but the state deferred almost \$1.5 billion in their General Fund payments (reflecting about 30 percent of all Proposition 98 General Fund dollars going to the colleges).
- **General Fund Reductions for the Universities**
 - The California State University (CSU) had its General Fund support reduced by \$299 million (6.9 percent General Fund reduction, 3.9 percent reduction in total core funds).
 - The University of California (UC) had its General Fund support reduced by \$302 million (7.7 percent General Fund reduction for campuses, 3 percent reduction in total core funds for campuses).
- **Some Targeted Augmentations**
 - The state provided CCC with targeted augmentations primarily to support undocumented students and help colleges respond to the impacts of the pandemic.
 - The state provided UC with targeted augmentations primarily in the area of medical education.
 - The state funded caseload adjustments to student financial aid programs. The segments did not raise student tuition charges.



Fiscal Impact of Pandemic

- **Revenue Declines in Noncore Programs**
 - The universities are experiencing notable revenue drops, particularly in their housing, dining, and parking programs. Though less of an impact at community colleges, they too report revenue declines in areas like parking, food services, student centers, and community events. (No systemwide CCC estimates are available.)
 - UC’s medical centers saw a notable drop in clinical and other revenue.
- **Drop in Nonresident Enrollment/Tuition Revenue**
 - Total nonresident enrollment at CSU dropped about 2,900 students (11 percent). It dropped at UC by about 1,700 students (2.9 percent).
- **Extraordinary Costs**
 - All three segments experienced some higher than normal costs, including for technology as well as health and safety measures. Systemwide, CCC estimates \$352 million in extraordinary costs through 2020-21.

Universities Are Reporting Substantial Revenue Declines Due to Pandemic		
<i>Cumulative Adverse Fiscal Impact From March Through December 2020 (In Millions)</i>		
	CSU	UC
Funding Reductions		
Noncore funds	\$689	\$1,384
State General Fund	299	302
Tuition revenue	24	38
Subtotals	(\$1,012)	(\$1,724)
Extraordinary Costs	\$70	\$150
Totals	\$1,082	\$1,874^a

^a UC also reports funding reductions of \$1.1 billion and extraordinary costs of \$361 million from its medical centers and medical schools.



Federal Higher Education Relief Funding

■ First Round of Relief in Spring 2020

- California received a total of \$1.9 billion from the first round. Campuses had to spend about half of these funds on student financial aid, with the remainder available for institutional relief.

■ No Additional Relief in Fall 2020

- No additional federal relief funds arrived by October 15, 2020—the date the state had set for certain trigger restorations. Consequently, the college deferrals and university base reductions remained in place.

■ Second Round of Relief in Winter 2021

- California is estimated to receive a total of at least \$2.9 billion from the second round. Campuses have to spend at least as much on student financial aid as they were required to in the first round, with the remainder available for institutional relief.

Segments Are Receiving Federal Relief Funds

(In Millions)

Funds	CCC	CSU	UC	All Other	Total
Spring 2020 Relief Package					
CARES Act: Higher Education Emergency Relief Fund					
Base Grants: Student Aid	\$290	\$263	\$130	\$171	\$854
Base Grants: Institutional Relief	290	263	130	171	854
Supplemental Grants: Minority-Serving Institutions	33	38	—	4	84
Supplemental Grants: Institutions With Unmet Need	— ^a	—	—	32	33
Subtotals	(\$613)	(\$564)	(\$267)	(\$379)	(\$1,824)
Coronavirus Relief Fund	\$54	—	—	—	\$54
Totals	\$667	\$564	\$267	\$379	\$1,878
Winter 2021 Relief Package					
CRRSAA: Higher Education Emergency Relief Fund					
Base Grants: Student Aid	\$290	\$263	\$130	\$196	\$879
Base Grants: Institutional Relief	1,023	591	261	188	2,063
Totals	\$1,313	\$854	\$391	\$384	\$2,942
Grand Total	\$1,981	\$1,418	\$658	\$763	\$4,820

^a Certain colleges received supplemental grants totaling \$425,000.

Notes: In most cases, campuses have one year from receiving funds to spend them. The amounts for UC exclude medical centers and schools. Figure shows CRRSAA allocations known to date.

CARES = Coronavirus Aid, Relief, and Economic Security and CRRSAA = Coronavirus Response and Relief Supplemental Appropriations Act.



Segments' 2020-21 Budget Responses

- **Campuses Are Implementing Cost-Containment Measures**
 - Campuses are leaving open vacant faculty and staff positions (that is, they slow or stop hiring) and most employee groups have not received general salary increases.
 - Some costs (including for travel and utilities) have declined due to reduced operations.
- **Campuses Are Drawing Down Reserves**
 - CSU estimates campuses will draw down a total of roughly \$200 million in operating reserves by the end of 2020-21 – accounting for about half of its uncommitted core reserves in 2019-20.
 - UC estimates campuses will draw down as much as \$174 million in reserves in 2020-21 – about 65 percent of estimated core reserves in 2018-19 (the most recent year of information available).
 - At CCC, total systemwide reserves grew \$117 million (5.3 percent) in 2019-20. Estimates are not yet available to assess how college reserves changed in 2020-21.
- **Some Campuses Are Borrowing Externally**
 - About one-third of community colleges are borrowing externally (using tax and revenue anticipation notes, or TRANs) to help them manage their cash flow while awaiting deferred state payments.
 - UC borrowed \$1.5 billion in working capital bonds in July 2020 to help sustain operations, particularly in its noncore programs. The Board of Regents has authorized up to \$500 million in additional working capital bonds through the end of the 2021 calendar year.



Overview of Governor's 2021-22 Budget Proposals

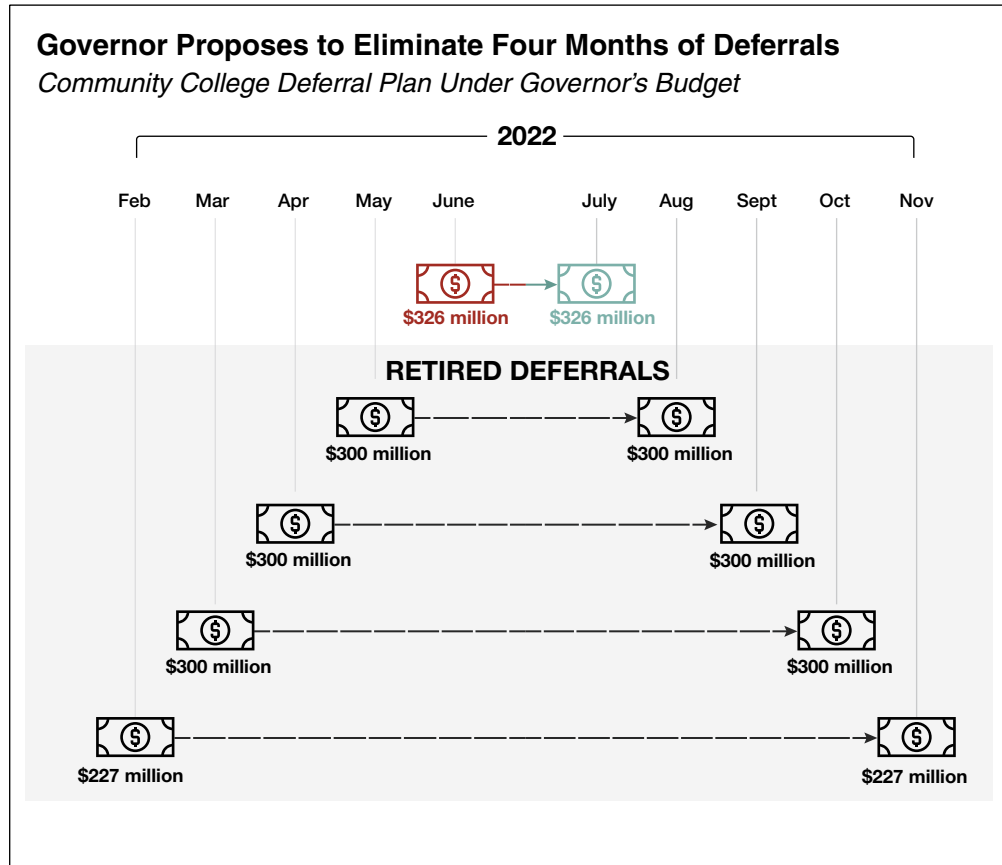
- **Pays Down Community College Deferrals**
 - The Governor proposes to pay down \$1.1 billion in community college deferrals, leaving \$326 million in remaining deferrals.
- **Increases Base Support at All Three Segments**
 - The Governor provides \$125 million to fund a 1.5 percent COLA for community college apportionments and select CCC categorical programs.
 - The Governor proposes 3 percent base General Fund increases for the universities—\$169 million for CSU (including retirement adjustments) and \$104 million for UC.
- **Places Certain Expectations on Segments**
 - The Governor expects all three public segments to develop plans to eliminate student equity gaps (by 2027 at the colleges and 2025 at the universities).
 - All three segments would need to adopt policies to increase their online courses by at least 10 percentage points from their 2018-19 levels.
 - The universities would need to develop a dual admissions pathway with the community colleges.
 - The segments would need to hold resident tuition student charges flat at 2020-21 levels.
 - The colleges would receive funding to support 0.5 percent enrollment growth. No systemwide enrollment expectations are set for the universities.
- **Proposes Some Targeted Augmentations**
 - These proposals are primarily in the areas of student support (at all segments) and deferred maintenance (at the universities).



Overview of Governor's 2021-22 Budget Proposals

(Continued)

- About One Month of College Payment Deferrals Would Remain



LAOA



Overview of Governor's 2021-22 Budget Proposals

(Continued)

■ Universities Would Remain Below Pre-Pandemic Funding Levels

Under Governor's Budget Plan, Colleges Are Treated Differently Than Universities

Ongoing General Fund Support Unless Otherwise Noted (Dollars in Millions)

	2019-20 Actual	2020-21 Revised	2021-22 Proposed	Change From 2020-21		Change From 2019-20	
				Amount	Percent	Amount	Percent
CCC							
General Fund ^a	\$6,720	\$6,829	\$7,076	\$248	3.6%	\$357	5.3%
Local property tax	3,252	3,414	3,598	184	5.4	346	10.6
Subtotals	(\$9,971)	(\$10,243)	(\$10,674)	(\$432)	(4.2%)	(\$703)	(7.0%)
CSU	\$4,352	\$4,042	\$4,243	\$202	5.0%	-\$109	-2.5%
UC	3,724	3,465	3,601	136	3.9	-123	-3.3
Totals	\$18,048	\$17,749	\$18,519	\$770	4.3%	\$471	2.6%
General Fund	\$14,796	\$14,335	\$14,921	\$586	4.1%	\$125	0.8%
Local property tax	3,252	3,414	3,598	184	5.4	346	10.6

^a Consists of Proposition 98 and non-Proposition 98 General Fund. A small portion of Proposition 98 funds are typically designated for one-time purposes.



Overview of Governor's 2021-22 Budget Proposals

(Continued)

Governor's Budget Proposals by Higher Education Segment			
<i>2021-22 (In Millions)</i>			
	CCC	CSU	UC
Ongoing Proposals			
Base increase	\$111	\$169 ^a	\$104
Student mental health and technology	30	15	15
Enrollment growth	23	—	—
Student basic needs	—	15	—
California Apprenticeship Initiative	15	—	—
COLA for select categorical programs	14	—	—
Programs in Medical Education (PRIME)	—	—	13
Online education and support block grant	11	—	—
Other	9	3	4
Subtotals	(\$213)	(\$202)	(\$136)
One-Time Initiatives			
Deferred maintenance	—	\$175	\$175
Student basic needs	\$100	—	—
Deferral paydown	81 ^b	—	—
Emergency student financial aid	— ^c	30	15
California Institutes for Science and Innovation	—	—	20
Faculty professional development	20	10	5
Work-based learning	20	—	—
Zero-textbook-cost degrees	15	—	—
Other	3	10	10
Subtotals	(\$240)	(\$225)	(\$225)
Totals	\$452	\$427	\$361

^a Includes adjustments for retiree health (\$55 million) and pension contributions (\$2 million)

^b An additional \$901 million is paid down using 2020-21 funds and \$145 million is paid down using 2019-20 funds.

^c An additional \$250 million in 2020-21 funds is proposed for emergency student financial aid grants. Of this amount, \$100 million is proposed for early action. Early action package also includes \$20 million one-time 2020-21 funds for CCC student outreach.

COLA = cost-of-living-adjustment.



Base Increases: Legislative Considerations

- **Proposed Base Increases Could Serve as Starting Point**
 - Community colleges could help cover pension and health care cost increases as well as consider modest salary increases.
 - Colleges and schools face similar cost pressures, but the Governor proposes a notably higher COLA rate for schools (3.84 percent for schools compared to 1.5 percent for colleges).
 - Universities also could cover certain pension and health care cost increases while still having some funds remaining for salary increases or restoration.
 - As the state budget is projected to have out-year operating deficits (on the non-Proposition 98 side of the budget), the Legislature has limited opportunity to provide further restoration to the universities.
 - For both colleges and the universities, the Legislature could revisit how much base support to provide later in the spring when better information will be available about the state’s fiscal outlook.
 - Raising tuition charges is one way to increase budget capacity, but tuition increases might be perceived more negatively if applied when campuses are still providing most instruction remotely.



Base Expectations: Legislative Considerations

- **Governor Has Identified Areas of Common Concern With Legislature**
 - Over the past decade, the Legislature has expressed interest in addressing student equity gaps, expanding online education, and improving the transfer process.
- **Governor’s Proposals Have Some Drawbacks**
 - Governor would require segments to create plans to close their student equity gaps but would not require them to annually report their performance thereafter.
 - Governor would require all campuses, regardless of their starting point, to increase online instruction by the same target. The target itself (a 10 percentage point increase) lacks a policy basis.
 - Governor’s initial dual admission proposal contained little detail. Many details would need to be worked through to determine if the proposal merits consideration.
- **Opportunities to Refine Governor’s Proposals**
 - Legislature could modify existing annual performance reports to have CSU and UC provide data on student equity gaps by race/ethnicity and identify improvement strategies. (The community colleges already report this information.)
 - Rather than requiring each segment to adopt new online education policies, the Legislature could direct each segment to prepare a report sharing lessons learned over the past year.
 - Upon receiving a more detailed dual admission proposal from the administration, the Legislature could assess its merits, potentially working through issues during the policy process.



Enrollment Growth: Legislative Considerations

■ Making College Enrollment Projections Is More Difficult Than Normal

- Whereas community college enrollment typically increases during recessions as dislocated workers seek retraining, it dropped notably over the last year (about 10 percent systemwide).
- The impact on student demand of potentially resuming in-person instruction at the colleges in 2021-22 remains unclear. Pent-up demand possibly could lead to large enrollment increases. A strong economic recovery, however, could dampen demand.
- Legislature could reevaluate Governor's proposal to fund 0.5 percent enrollment growth later this spring. At that time, better information will be available on current-year enrollment trends, the economy, and college's plans for the 2021-22 academic year.

■ Factors Affecting University Enrollment Lead to No Clear Bottom Line

- Fall 2020 resident enrollment was up 1.4 percent at CSU and 0.8 percent at UC.
- Projected growth in high school graduates is low.
- Community college transfers had been trending up prior to the pandemic, but overall community college enrollment is down in 2020-21.
- The effects of resuming in-person instruction, the economy, and a new dual admission pathway on university enrollment levels are unclear at this time.
- Legislature could start by setting flat university enrollment targets for 2022-23.
- Every 1 percent increase in resident enrollment costs an estimated \$34 million at CSU and \$24 million at UC.



Student Support: Legislative Considerations

- **Proposals Address Longstanding Problems Exacerbated by Pandemic**
 - Survey data shows that students had issues with basic needs before the pandemic, and they have added challenges today due primarily to income losses.
- **Governor’s Approach to Dealing With Problems Is Uncoordinated**
 - Governor layers new programs onto a hodgepodge of existing programs.
 - The new programs do not have clear, measurable objectives.
- **Opportunities Exist to Refine Proposals This Year**
 - Create clear, measurable objectives before augmenting any ongoing program.
 - Coordinate any one-time state funding with federal relief funding.
 - Expand efforts to increase student utilization of public assistance programs.
- **Take Opportunity to Refine Overall State Approach Longer Term**
 - Replace existing piecemeal approach with holistic strategy for addressing students’ basic needs.
 - Coordinate with traditional student financial aid programs and public assistance programs.
 - Remain attentive to state’s projected out-year operating deficits.



Other Legislative Considerations

- **Consider Providing More for Deferral Pay Downs and Deferred Maintenance**
 - Both of these areas are prudent uses of one-time funds. They improve budget resiliency by addressing existing obligations.
 - Neither area increases ongoing out-year operating costs.
 - Addressing deferred maintenance even can lower out-year costs, as undertaking projects now can avoid more costly repairs in the future.
 - Whereas federal relief funds are available for some of the Governor’s one-time priorities (such as student emergency aid and faculty professional development), they are not available for paying down deferrals or deferred maintenance.
 - If the state’s fiscal outlook is even better in May, the Legislature could consider eliminating all community college payment deferrals and increasing the amount provided for addressing deferred maintenance projects.
 - The Legislature also could consider repurposing funds from low-priority proposals. Funds from lower-priority Proposition 98 proposals could be redirected to CCC deferral pay downs, whereas funds from lower-priority non-Proposition 98 proposals could be redirected to university deferred maintenance.

