CAL POLY

ADMINISTRATION AND FINANCE

Office of the Vice President

University Budget Update

Dear Campus Community:

There have been many questions recently about the university's budget situation in light of the ongoing pandemic and announcements by California Governor Gavin Newsom related to state revenues and potential additional funding for higher education.

The budgetary impacts to Cal Poly are complicated and—in the spirit of transparency—this communication is intended to provide further clarification regarding our budget and financial situation.

2020-21 Operating Budget

On June 29, 2020, Governor Newsom signed the 2020 Budget Act, a $202.1 billion spending plan that addressed the $54.3 billion state budget shortfall caused by COVID-19. As part of this reduced spending plan, California State University (CSU) funding was cut by $299 million (7.4%).

Cal Poly's Operating Budget is supported financially by two main revenue streams: 1) annual state appropriation, allocated by the CSU, which makes up approximately 40% of our budget, and 2) student tuition and fees. The state appropriation is a recurring or ongoing commitment and student tuition and fees are collected every year, but vary depending on student enrollment.

The impact of the CSU budget reduction to Cal Poly was a $21 million (13%) permanent decrease in state funding. In addition, the university was assessed $5 million in unfunded mandatory costs (health insurance, retirement and insurance). The combined impact of the state funding reduction, increase in mandatory costs and a structural deficit of $9 million, resulted in an original projected budget deficit in Fiscal Year (FY) 2020-21 of $35 million. However, due to an increase in projected enrollment, the deficit was revised to $33.6 million. Overall, this represents 8.3% of the university's operating budget.

In an effort to mitigate the impacts of this substantial budget deficit, the campus implemented several budget strategies, which included campus-wide budget reductions, partial sweep of area carryforwards, centralization of benefits, implementation of an early exit program (EEP) and use of one-time and reserve funds.

The university will address the current year projected deficit through a combination of permanent base budget reductions of $15.4 million and utilization of one-time funds and reserves of $18.2 million. Reductions were varied and reduced administrative costs. To be clear, reductions were not across the board with the lowest reductions, less than 5%, occurring in the colleges as we prioritized our core function of teaching and learning / Learn by Doing. Other division reductions ranged from 4%-17%.

The portion of our deficit addressed by the use of reserves and one-time funds remains an ongoing structural deficit going into the 2021-22 year. The university will need to continue to rely on its limited reserves and other budgetary controls to mitigate this deficit. This deficit is significant and will require multiple years to address. Consequently, we remain in the midst of a hiring slow down with careful evaluation of all expenditures both recurring and one-time.

Enterprise and Auxiliary Enterprises

Cal Poly's enterprise (self-support functions, such as housing and parking) and auxiliary functions (such as the Cal Poly Corporation) are separate from, and not financed by, state appropriations or tuition. Rather, they are supported by revenues, such as room fees, meal plans, parking and retail sales. These operations have been severely impacted by the pandemic.

The Cal Poly Corporation has been forced to furlough and/or lay off employees and must find other resources to enable them to meet their debt service payments and pay for other day-to-day operational costs. University Housing alone incurred a net deficit of $15.2 million in FY 2019-20. They are projected to end FY 2020-21 in a $22.8 million deficit for a total of $38 million.

This deficit will be covered with a loan from either Cal Poly or the CSU. This loan will be fully repaid by University Housing as it returns to normal occupancy levels.

Stimulus Funds

The stimulus monies allocated to the CSU campuses have been crucial and we are grateful for the assistance. It is important to note that these are one-time monies with spending and reporting limitations similar to any federal grant. The stimulus allocations have, in significant part, been based upon the number of Pell students at the institution. Without a doubt, institutions with large Pell Grant populations experience costs unique to supporting their students during the pandemic. However, the stimulus funding is not linked to actual revenue losses/expenses experienced by the institution. Nationally, it is recognized that campuses with significant residential populations are experiencing some of the greatest financial distress due to de-densified, on-campus residents and the resulting impact on housing, parking, bookstore and dining operations.

By the end of 2020-21, Cal Poly projects the following estimated COVID related financial impacts to the General Fund, Parking and Housing:

Losses/Expenses

- Revenue loss: $79.5M
- COVID related costs: $13M
- *Total losses/expenses: $92.5M*

CARES Funding

- CARES Financial Aid Funding (direct payments to students): $14.2M
- CARES Institutional Support Funding: $20.7M
- *Total CARES Funding: $34.9M*

Thus, while federal stimulus monies provide much needed financial relief, the amount received by Cal Poly will be significantly less than the losses incurred.

Outlook for 2021-22 Operating Budget

Governor Newsom recently released his proposed 2021-22 Budget, which included $144.5 million in new recurring funding and $225 million in one-time funding for the CSU. The proposed recurring funding is to be allocated as follows:

- $111.5M for general operating costs (3 percent increase to the CSU state appropriation);
- $15M for Graduation Initiative (GI) 2025 (Basic Needs Initiative);
- $15M for student mental health and technology needs;
- $2M to support a common learning management system (Canvas) across higher education segments; and
- $1M for enrollment funding for Stanislaus State's Stockton Center.

With this allocation, only $126.5 million will be distributed for general operating and GI 2025 purposes. The remaining amounts are restricted for specific purposes. It is important to note that this is only the initial step in the State of California's budget process and is subject to change. Ultimately, the governor and the legislature will have to agree on a final budget, which will be issued in late June.

While the additional investment proposed by the governor is certainly a positive sign, it is a fraction of what is required to restore the 2020-21 recurring budget cuts. In addition, at least at this time, there are not one-time funds allocated to losses related to COVID-19 beyond federal funds. Further, the long-term health of the state's economy remains tenuous as a result of the ongoing impacts of the pandemic. Given this fact, we must be clear-eyed about the financial realities facing the state and the university. The university remains in a very difficult economic situation and we recognize that full recovery will take several years and permanent changes in how we operate.

I am pleased to note that Chancellor Castro, at the January Board of Trustees meeting, announced that the CSU will not raise tuition for the 2021-22 year given the impact of the pandemic on students and families. He further indicated that, should current CSU assumptions regarding state and federal support hold, he would not support a system-wide furlough of state employees or faculty. Finally, he committed that CSU would do all it could to avoid further layoffs of university-funded faculty and staff.

To negotiate these tough economic times, we will continue to focus on funding the core services of the university and addressing critical deferred maintenance across the campus. Please note that as we maintain core services, we will be hard pressed to make progress toward some of the goals outlined in our strategic plan. We will survive, but it will require ongoing sacrifice and diligence in managing our budgets. To thrive, we must come together as a campus and engage in creative thinking about how we can be more efficient and enhance existing revenues and create new revenue streams to offset our deficits.

I hope this update provides greater clarity and a broader understanding of our budget and the many factors that impact it. We look forward to sharing more details with you in the coming months as we move forward in the FY21-22 budget planning process.

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