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May 18, 2020

The Honorable Kevin McCarty
7th California Assembly District

The Honorable Joaquin Arambula
31st California Assembly District

Dear Assemblymember McCarty and Assemblymember Arambula:

I would like to thank you for your strong leadership responding to the COVID-19 crisis. UC is following the guidance provided by the Governor, the California Department of Public Health, and the Centers for Disease Control and Prevention (CDC) as we continue to take steps to protect our students, faculty, staff, and communities.

The University of California recognizes the unprecedented challenges California faces in the wake of COVID-19, and regrets that the State's dramatically diminished revenues prompted Governor Newsom to steeply reduce the University's budget. Regardless, the University stands with the Governor and the Legislature to help lift the state out of this economic crisis. As the world's largest public research university system, UC is confronting many of the worst impacts of the virus all at once. We are a health care system saving lives; a research enterprise seeking cures and a vaccine; an education system quickly transitioning to remote instruction; and an employer working hard to protect our workforce in the face of an economic downturn. The University is well positioned to assist the State with addressing the crisis and helping economic recovery.

To accomplish this, we ask that:

- the State approve a budget that maintains the University's General Fund allocation at the levels provided in the Budget Act of 2019; and,
- as the State receives already approved CARES Act funds and any future federal recovery or stimulus funding, it provides UC with the funding necessary to address our lost revenues and increased expenditures to the greatest degree possible.

Reductions to the University's base budget combined with the increased costs and lost revenues the University is experiencing will have negative impacts to our ability to deliver instruction, conduct research, and care for patients.

Fiscal Impact to UC of COVID-19 Pandemic

At the request of the Department of Finance, the University, along with other State agencies, is tracking expenditures and lost revenues due to the pandemic. The spreadsheet that follows summarizes the costs at each campus and UC's academic health centers from mid-March through April 30. Lost revenues are the majority of the costs incurred by the University and additional costs will be reported monthly going forward.

The University has experienced a total of \$1.18 billion in COVID-19 related impacts from mid-March through April 30, 2020. This total is comprised of \$484.1 million in new expenditures and lost revenues to campuses and \$700.2 million to academic health centers. Although I describe below the federal funds that have offset a small portion of the current and expected costs, we do not expect that any future federal fiscal relief packages would be sufficient to cover the staggering costs UC is experiencing

Unlike past recessions, the economic crisis prompted by COVID-19 impacts multiple components of the University's \$39 billion budget. The State Legislature is accustomed to viewing and understanding the University's budget through the lens of "core funds"—the \$9.4 billion portion that provides permanent funding for the University's core missions, as well as much of the administrative and support services needed to perform them. This core funds budget is comprised of approximately \$3.9 billion in State General Fund, \$3.8 billion in tuition and fees, and \$1.2 billion in supplemental tuition paid by nonresident students.

COVID-19 has profoundly impacted the UC budget beyond core funds, threatening functions that are critical to UC's instruction, research, and public service mission but receive very little or no State General Fund operating dollars. For the campuses, these self-sustaining areas include devastating losses of revenue to sales and services, which includes residence and dining halls and athletics. Revenue streams including tuition and fees, which so far have been impacted by cancelled study abroad programs, the UCDC program, and in-person summer session, as well as the supplemental tuition paid by nonresident students, are a less certain component of UC's budget than in prior budget years. In particular, we anticipate a significant reduction in international students and the accompanying non-resident tuition that they pay. The UC academic health centers are also continuing to experience unprecedented financial strain because of this pandemic. The health centers have incurred extraordinary new costs related to preparing for the pandemic, including standing up diagnostic testing for our system and the state and purchasing personal protective equipment to protect our health care workers and patients. We have also experienced significant loss of revenue associated with the cancellation or postponement of non-COVID-19 essential surgeries and medical procedures – both to minimize risk of exposure of the virus and to prepare for an expected surge of COVID-19 patients. As a result of the COVID-19 pandemic, UC Health is estimating a budget shortfall to exceed \$1.4 billion by the end of the current fiscal year.

These financial pressures contrast sharply from prior recessions. During and in the aftermath of the 2008-09 Great Recession, the University's lost revenues were primarily associated with loss of State General Fund monies. To maintain access to its quality educational and research programs, the University made the difficult decision to address the funding shortfall by significantly increasing tuition and fees, while also reducing personnel costs through instituting a furlough program. In addition, increases in the amount of nonresident students enrolled in the University provided significant revenue for the University to ensure a high-quality, affordable education for eligible Californians.

Ultimately, the impact of the pandemic on the University's resources will be a function of multiple variables, including but not limited to how soon the spread of the virus is contained (and whether another outbreak will occur in the near future), how rapidly the general economy will recover, how students are taught and housed during the next academic year, the potential impact on students' enrollment decisions, and future State budget appropriations for UC. Because of the unprecedented nature of the pandemic, none of these can be predicted with great certainty at this point.

Federal Assistance

The University will take full advantage of reimbursement opportunities for pandemic-related costs provided by the Federal Emergency Management Agency (FEMA). The University has accessed over \$260 million in federal support provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, one-half of which was dedicated to direct emergency grants to students and one-half of which covers only a fraction of the institutional costs and revenue losses attributable to COVID-19.

UC's academic health centers have received an additional \$288 million to date in CARES Act funding from the Public Health and Social Services Emergency Fund. With the enactment of the most recent federal relief package, an additional \$75 billion was added to the CARES Act Provider Relief Fund. While the federal government has not yet indicated how those funds will be distributed, we anticipate that UC Health's share will likely be comparable to previous tranches; we would therefore expect to receive up to an additional \$150-\$200 million. In short, while hundreds of billions of dollars have been appropriated for fiscal relief at the federal level, UC's share (even including anticipated amounts from provider relief funds that have not yet been distributed) will not offset even our revenue losses to date. As you are aware, at this juncture only the CARES Act funding may be used to offset lost revenue, and any recovery we ultimately make from FEMA will cover only a portion of the directly attributable costs for our COVID-19 treatments and response.

Pursuant to another provision of the CARES Act, the University plans to defer an estimated \$700 million of the University's employer contribution to Social Security in 2020. Although the contribution will need to be repaid in 2021 and 2022, the deferral will provide additional liquidity for campuses this year.

We will continue to provide verification of our estimated new expenditures and lost revenues and keep you apprised of funds received as we continue to serve our patients, workers, and students. The University remains your partner in fighting this pandemic, and we will need your support to ensure that our medical professionals and hospitals have every tool at their disposal to serve patients and public health.

University Efforts to Address the COVID-19 Fiscal Impacts

Job Protection. Collectively all UC Chancellors and I announced on April 2, 2020, that there would be no COVID-19 related layoffs for all career employees through the fiscal year ending on June 30, 2020. We made this decision to give peace of mind to our employees providing critical services in the community. As the third largest employer in the State, UC's actions in keeping people employed has positively impacted local economies and model similar actions for other employers. Continuing to pay employees when we are suffering tremendous losses of revenue is not possible without sustained assistance from the State.

Cost Containment / Loss Mitigation. The University has taken initial, prudent cost containment steps related to hiring personnel, and compensation. Some of these steps include a systemwide freeze on salaries for policy-covered staff employees, a systemwide freeze on salary scales for policy-covered Faculty, a voluntary pay cut of 10 percent for current Chancellors and myself, eliminating non-essential travel, and renegotiating service agreements. The UC Office of the President budget was prepared for presentation at this month's Board of Regents meeting prior to the May revise. It included a five percent reduction for the 2020-21 fiscal year, but this will be reconsidered in light of recent information. Clearly, other actions will need to be taken to reduce expenses. Each UC location faces unique circumstances, which will require different budgetary strategies and actions, so cuts will not necessarily be uniform across the system.

Consistent with California Department of Public Health's guidelines for "Resuming California's Deferred and Preventive Health Care," our academic health centers are currently in the process of resuming non-COVID essential clinical services, with a focus on addressing urgent needs while protecting patient safety and avoiding COVID-19 transmission. While this will ultimately mitigate loss of revenue, we do not anticipate returning to our normal census in the next few months, and it is likely that it will take considerable time to return to pre-crisis patient volumes. Our leaders are also exploring ways to build upon our existing efforts to increase economies of scale and reduce costs related to health center operations – and to improve the quality and efficiency of care delivery, improve outcomes, and thereby reduce costs related to clinical care.

The UC Regents meet May 19-21 and will hear and discuss the impacts of COVID-19 to the University's health services and academic and student affairs operations. The Financial and Capital Strategies Committee will hear and discuss item F7, *Projected COVID-19 Impact on 2019-20 and 2020-21 Revenue*. In addition, I am recommending to the Board approval of principles that would guide the responsible operation of UC campuses and other locations in light of the pandemic. This Regents meeting, combined with the recent announcements by the

State of COVID-related budgetary impacts, will advance our discussions and decisions. The University will continue to explore options prior to seeking increased revenue from tuition or reduced costs through personnel reductions. This will be a significant challenge because non-State General Fund components of UC's budget are experiencing such deep losses of revenue.

Maintaining Student Support, Instruction, Research, and Patient Care

As the largest public research university in the world, UC continues efforts on several fronts not only to protect our students, faculty, researchers, and staff, and to treat patients at our academic health centers, but ensure that these individuals can thrive and be part of an economic recovery that makes California a more equitable society.

Student Support. The devastating toll on personal economies cannot be overlooked and we want to ensure that no student elects not to attend UC because they believe they cannot afford education at this time. UC is working hard to recalculate financial aid for students whose families are experiencing economic losses. UC is also committed to helping students who are ineligible for federal relief, such as our undocumented student population.

Students will have a variety of needs associated with managing student-life during a pandemic, from primary care to mental health to academic support. UC campus-based Student Health and Counseling centers have transitioned to offering most of their services by telephone or tele-health visits, and have continued to provide on-site services including evaluation and medically necessary testing for COVID-19 as well as other routine primary care services. While both the U.S. Department of Health and Human Services and Governor Newsom have issued waivers and orders liberalizing the use of telehealth services within California, further actions to remove federal and state restrictions that prevent licensed health care providers from delivering telehealth care across state lines are required.

Instruction. UC took the critical step of transitioning student instruction and coursework to remote learning modalities because this was the safest way to continue instruction and ensure degree completion. Rapid, large-scale migration to online platforms is a significant expense for campuses and students, and campuses have additional costs in IT security, technological investments, and payments to online meeting platform providers. As we look to safely resume in-person operations on our campuses this fall, resources to ensure student safety on campus and the ability to receive instruction in a hybrid mode of safe, in-person environments and remote learning is not only a priority, but a necessary increased cost.

Governor Newsom's May Revise demonstrated his continuing support for the UC Riverside School of Medicine by providing an additional \$11.3 million in ongoing support. Although this support is appreciated, it is less than the \$25 million originally proposed by the Governor in January. We continue to request the full amount from the Legislature in order to sustain and grow the School, which is uniquely positioned to expand medical education in the Inland Empire, a region that has been medically underserved for far too long. This ongoing investment is needed now to help the State achieve more equitable access to healthcare in a post-pandemic California.

Research. The UC education and research enterprise relies on long-term, continuous staffing and stable State and federal financial support, which has become difficult to maintain with campus and field location closures. We have over 300 COVID-related research projects across the UC System. Many research projects are experiencing setbacks as a result of laboratory closures and clinical trials that have been halted or curtailed. Graduate students are finding their studies impacted as well. The full costs and impacts of these halted projects may not be known for months or even years. But we do know that additional research funding is needed now towards the development of a COVID-19 treatment, vaccine and, other measures to address the pandemic. UC is well positioned to contribute to such efforts and has already quickly mobilized considerable resources towards this goal.

Patient Care. UC Health is caring for COVID-19 patients, conducting thousands of tests in our laboratories, and researching to find treatments and cures. UC's academic health centers are destinations for some of the most critically ill patients in the state, and all of them have treated patients who have contracted or tested positive for the SARS-CoV-2 virus, with more than 50,000 patients tested, nearly 1,700 with COVID-19 diagnosed, and more than 550 inpatients cared for across the system to date. Treating COVID patients has generated direct and indirect costs:

- Building and maintaining structures and operational protocols to quarantine COVID patients;
- Purchasing increased personal protective equipment (25-fold compared to pre-pandemic levels);
- Creating new facilities and/or preparing existing spaces to increase surge capacity;
- Maintaining a 24/7 incident command center at each health center;
- Continued staff training for pandemic preparedness, new infection prevention protocols, and other evolving protocols and procedures;
- Providing housing for frontline staff who are seeking to mitigate the risk of spreading COVID to their own households;
- Increasing facilities cleaning costs, including additional cleaning supplies, screens and barriers, and deep-cleaning of facilities; and
- Expanding infrastructure and services to support remote work and online communication, including expanded use of telemedicine.

Testing, Shortages, and Supply Chain Issues. The University is working diligently to partner with the State to significantly increase overall testing capacity as well as to increase the speed and frequency of testing for COVID-19 for the people of California. This need is increasingly acute as our health centers resume essential non-COVID services and, more broadly, as the state enters Stage 2 of its Pandemic "Resilience Roadmap." One constraint on increasing our capacity is the ability to source swabs and other viral transport media. State support for a stable supply chain to procure critical laboratory supplies would make a major difference in our ability to maximize our testing capacity. UC's ability to access the CARES Act funding provided to the state to support testing will be critical. I also appreciate the steps that State and federal government leaders have taken to help increase the inventory of critical supplies

The Honorable Kevin McCarty and the Honorable Joaquin Arambula
May 18, 2020
Page 7

and equipment for patients and staff on the front lines. We look forward to the State's continued efforts to assist UC Health with maintaining a stable supply chain and identifying funding streams to support the purchase of these vital resources.

The State and UC Leading Pandemic Recovery

We are proud to be partnering with the State on multiple fronts to combat this pandemic. Our renowned experts are serving on State taskforces that offer advice and assistance on increasing testing capacity and development of novel therapeutics, establishing a State-wide research brain trust, surge planning, contact tracing, and more. We are committed to this ongoing collaboration, which is part of our mission and tied to the unique role and capabilities of UC's academic health systems.

Furthermore, the University today serves record numbers of California students, providing students from every socio-economic background with access to a life-changing, world-class education. It does so even though the University's available resources from core funds—both direct State General Fund support and tuition and fees—is about 30 percent lower on a per student basis today than it was nearly two decades ago. Reducing the University's General Fund appropriation below its current level places that success at risk, not only for currently enrolled students but for future generations of high-achieving California students, including a growing number of students from non-traditional backgrounds.

We firmly believe that maintaining UC at its ongoing funding levels of 2019 Budget Act is critical if the University is to continue to meet our shared goals of access, affordability, and academic quality. The University also is poised to make the best use of federal dollars in a way that assists the State in its recovery from the pandemic. The University is the State's third largest employer and research arm, a premier educational institution that prepares the workforce of tomorrow, an engine of social mobility and economic activity, and home to academic health centers that are on the front lines of treating and helping the State to manage the evolving COVID public health emergency.

We thank you for your consideration of all of these factors as you make difficult decisions in the coming weeks, and are happy to provide you with any additional information you may need to support these requests.

Yours very truly,



Janet Napolitano
President

Attachment