

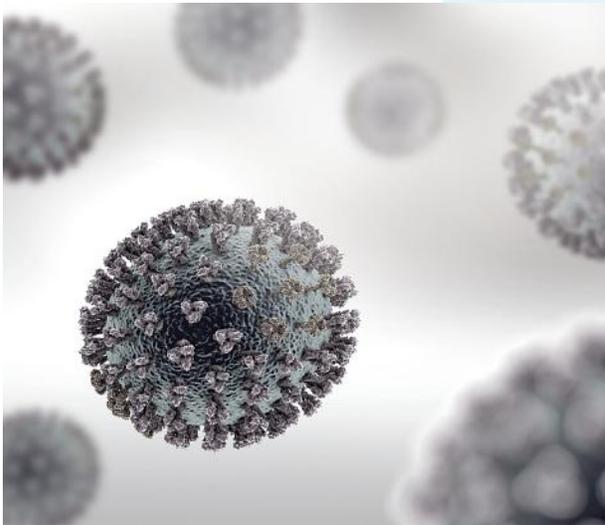
# Policy Brief

COLLEGE PROMISE

JULY 2020

## Keeping the College Promise: Financial Sustainability in the Face of the COVID-19 Pandemic

BY MARTHA KANTER



In times of economic crisis, earning college certificates and degrees matters now more than ever for our nation's students. During the last recession, according to the Georgetown University Center on Education and the Workforce, nearly four out of every five jobs that were eliminated were held by workers with a high school diploma or less. [1] As the global economy responds to the impacts of the COVID-19 pandemic, the need for affordable and accessible postsecondary education grows more important. Postsecondary education and employment are critical to economic mobility, and efforts to expand college access, affordability, and success must be lasting and dependable.

Promise programs offer a commitment to fund a college education and student supports for every eligible, hardworking student advancing on the path to earn a college degree, a postsecondary certificate, credits that transfer to a four-year university, and/or competencies needed for success in college, career, and community. These programs have experienced a groundswell of bipartisan support in recent years, with nearly a 570% increase in the number of programs since 2015. Yet, as Promise programs continue to expand, they must also become financially sustainable, and the COVID-19 pandemic -- for many -- may be their first major financial stress test.

### Financing College Promise Programs

There is no one-size fits all approach to financing College Promise programs. They often leverage a variety of potential funding streams based on what resources are available in their particular community. According to a 2019 survey by College Promise, programs are pretty evenly split between public funding (33%), private funding (33%), and a combination of both (34%). [2] When designing the revenue sources for sustaining a Promise program, leaders consider a variety of factors,

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## RECOMMENDATIONS FOR PROMISE PROGRAMS

Diversify sources of funding and seek partnerships both within their community (public and private) and at the state level.

Invest in developing and continuously updating a long term strategic plan for financial sustainability with clear fund development goals, including investing in the administrative infrastructure and support needed to carry out such a plan.

Gradually scale programs up to full target functionality over the course of multiple years to fully account for program costs and growth in demand, as well as to build “proof of concept” evidence to support their ultimate program goals sustainably.

including program service area, location, and tax base.

### *Public Funding*

Public funding can derive from federal, state, or local governments, including: revenues or appropriations from the local or state level and/or federal grants or tax incentives.

- Local Funding: At the local level, Promise programs obtain funding from city and/or county allocations, including appropriations or line items in the city or county budget. Some cities have chosen to dedicate a proportion of various taxes to Promise, for example allocating part of sales or property taxes. Seattle Promise utilizes this model, leveraging a beverage tax and then property tax levies to fund the program.
- State Funding: Promise programs can receive statewide funding through appropriations, lottery funds, and/or tax-increment financing -- which is embedded in the state tax code and not subject to periodic budgetary discussions or cutbacks. These financing sources typically apply to statewide Promise programs, of which there are currently twenty-nine.
- Federal Funding: The majority of Promise programs rely on student financial aid—specifically Pell Grants—as the cornerstone on which to build their College Promise. 83% of Promise programs utilize a “last-dollar” or “last-dollar+” model in which the amount of College Promise funding awarded to an eligible student takes into account any additional public funding or grants the student is eligible for, like a federal Pell Grant. This financing approach significantly minimizes the cost per student for College Promise programs.
- Additionally, the U.S. Department of Education provides multiple revenue sources that Promise programs can leverage to fund their programs. These include financial support for student financial aid (e.g., Pell, Work Study, and Supplemental Education Opportunity Grants) as well as for programmatic



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From 2009-2013, Dr. Kanter served as the U.S. Under Secretary of Education, overseeing all federal postsecondary statutory, regulatory, and administrative policies and programs, including the \$175B annual federal student aid programs, higher education, adult education, career-technical education, international education, and 6 White House Initiatives. From 1993-2009, she was president of De Anza College and then chancellor of the Foothill-De Anza Community College District in Silicon Valley, California. She began her career as an alternative high school teacher in Lexington, MA.

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activities to improve institutional capacity, quality, and success. The U.S. Department of Labor also has several programs that align education and training to employer needs, such as the Trade Adjustment Assistance Community College and Career (TAACCCT) grant program that ended in 2018.

**Private Funding**

Private funding streams for Promise programs can originate from institutional endowments, philanthropy, corporations, local businesses, and/or individuals.

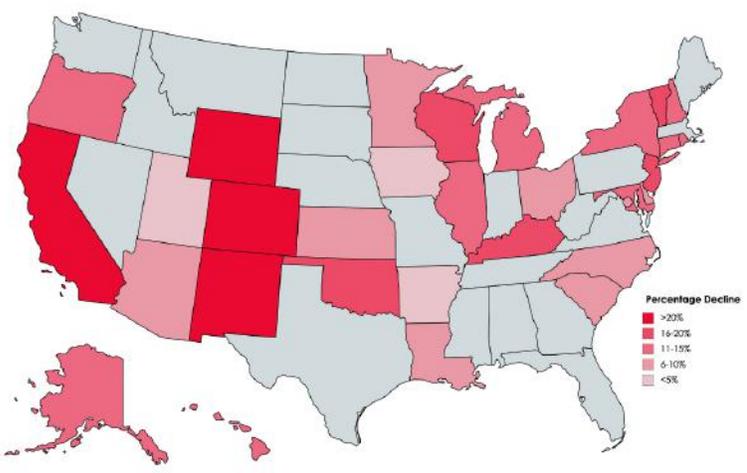
- **Business:** Promise programs act as economic engines by increasing a community's skilled workforce, raising interest in the business community to finance them. For example, El Dorado Promise is funded by the Murphy Oil Corporation and the Detroit Promise is funded and administered by the region's Chamber of Commerce. Smaller businesses can also be significant resources, both through in-kind contributions of internship or mentorship opportunities and through financial contributions.
- **Philanthropy:** National and local foundations provide grant financing, and oversight, of numerous Promise programs. As an example, the Corcoran Promise, financed by the Corcoran Community Foundation and the West Hills Community College Foundation, pays for Corcoran High School graduates in California to attend their first year at West Hills College in Coalinga.
- **Individuals:** Individuals frequently contribute to Promise programs to directly support their community. As such, soliciting small dollar or individual donations can be doubly beneficial as it provides an additional funding stream while also engaging community members, helping them feel a sense of ownership and pride in a Promise. As an example, the VanGuarentee, a last-dollar Promise scholarship at Vance Granville Community College in North Carolina, was established through a gift from the estate of Wilbert A. Edward.

**Economic Impacts of COVID-19**

**Impact on Government Revenues**

As businesses remain shuttered or partially opened due to the COVID-19 pandemic, all levels of government are expected to face reductions in tax revenue due to lost income and sales. According to the National Conference of State Legislatures, 60 percent of states have revised FY2021 revenues down as a direct result of the pandemic -- including California, Wyoming, Colorado, and New Mexico who project revenues down by at least 20%. [3] The National Association of Counties estimates that county governments are collectively facing \$114 billion in lost revenue and \$30 billion in additional expenditures through FY 2021. [4] On the local level, while the immediacy of the economic impact will vary by city, a recent analysis by Brookings

**Revised State Fiscal Year 2021 Revenue Declines**



Source: National Council of State Legislators

estimates that localities with greater than 15% share of employment in high-risk industries and tax structures that are highly reliant on elastic sources of revenue will more immediately feel the economic impacts of the pandemic. [5]

Overall, fiscal impacts might appear in the near-term, but worsen even as health risks decline. According to the Federal Reserve Bank of Kansas City, historically state and local government performance tends to lag business cycles. [6] This was last seen during the Great Recession, when state and local governments only began to impact GDP growth in 2010, but continued to slow economic growth through 2013 even as the broader economy rebounded.

*Impact on Higher Education Budgets*

The higher education sector is facing a perfect storm of short-term cash flow concerns due to the pandemic. Starting in March, most colleges lost sources of revenue like parking fees and dining outlet sales. Division I schools lost up to \$375 million in funding from the NCAA due to the cancellations of spring tournaments. [7] Concurrently, schools have faced unexpected expenses, including partial refunds on fees, room and board, and the need to move courses into remote learning environments. The University of Wisconsin system, for example, estimates that it will issue about \$78 million in refunds for the 2019-2020 school year. [8]

For colleges and universities that were already financially stressed or operating from a deficit position prior to the pandemic, short-term unanticipated expenses and longer-term enrollment declines will likely threaten their solvency, potentially forcing numerous closures and mergers. Even well-resourced colleges will face long-term budgetary challenges as it remains difficult to forecast enrollment for the 2020-21 academic year. [9] Institutions are estimated to lose at least \$3 billion from international student enrollment declines alone in fall 2020. [10]

Together, the lost revenue and increased costs facing colleges and universities far surpass the \$7.6 billion in federal stimulus funds they are receiving from the CARES Act. [11] Rutgers University, for example, is estimated to be facing up to a \$183 million impact on their budget due to the pandemic, outpacing the \$27 million expected from the CARES Act. [12]

*Impact on Philanthropy*

Philanthropy is a recent bright spot in a struggling economy, despite their fluctuating balance sheets. Historically, philanthropic giving decreases during recessions. [13] Yet, according to Candid, over 860 funders have already committed



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more than \$11.7 billion in response to the pandemic. [14] Moreover, almost 775 foundations have signed a public pledge to streamline grant-making processes. [15] The big question is whether philanthropic giving for education programs like Promise will take a backseat to investments in areas like healthcare, criminal justice, emergency services, or food insecurity to help families and communities stabilize and recover.

### Promise Program Financial Sustainability Prior to the Pandemic

With philanthropic support from the ECMC Foundation and data analysis support from ETS, College Promise undertook two years of research, completed in 2019, to investigate publicly available College Promise information and collect survey data from 134 College Promise programs about financial sustainability. The survey questions covered five areas: basic program information, characteristics of eligible/served students, structure and size of expenditures, funding sources utilized, and sustainability efforts.

The survey highlighted that, pre-pandemic, the majority of Promise programs experienced uncertainty around funding: 50% of Promise programs reported having financial sustainability concerns and another 27% were unsure if financial sustainability would be an issue or not. These concerns existed despite 61% of programs indicating that they felt sufficient funding was potentially available within their community to achieve their Promise goals. Keeping pace with increasing demand for the program was the biggest funding challenge for Promise programs. Only 34% of Promise programs reported making changes to be more financially sustainable, but half of those programs chose to restrict eligibility requirements to limit the number of students served and 30% chose to reduce the amount of the scholarship award offered. Costs beyond the scholarship award itself were shown to be significant: the median cost of support services was \$150,000 and median cost of administrative expenses was over \$140,000.

Although 80% of programs indicated taking steps toward financial sustainability, only about a third utilized long-term strategic plans or formal fundraising plans and only half had dedicated fundraising staff. The presence of fundraising staff was largely dependent on the nature of the funding sources. Among programs who utilized any private funds, roughly 60% maintained fundraising staff, compared to 27% of programs that were exclusively publicly funded.

### Implications of COVID-19 on Promise Program Financial Sustainability

In the context of COVID-19, many of the trends identified by the survey are likely to be exacerbated in the pandemic-impacted economy. Promise programs that depend on only one funding stream -- government sources, college funds, business investments, or individual donors -- are likely most at risk financially due to the



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pandemic.

Roughly 60% of Promise programs utilize some form of government funding, and with expected future reductions in government revenue, these programs will likely require program design changes or supplemental funding to sustain service quality. As economic shifts rearrange legislators’ funding priorities, programs relying on the year-to-year reallocation and appropriation of funds run a high risk of being defunded as resources shift towards more immediate COVID-19 related needs. The exception is lottery-funded programs -- such as the Tennessee Promise -- as the lottery market is predicted to grow by \$30.12 billion (6%) between 2020-2024, despite the pandemic. [16] Programs that are financed through government sources that have been dedicated in advance such as entitlements, endowments, or tax-increment funding will also be more resilient, as they continue to provide a predictable and consistent source of funds, and could benefit from supplemental funding to sustain Programs at pre-COVID economic levels.

Promise programs directly funded by a college or college foundation may also face potential budget cuts as postsecondary institutions face rising costs and enrollment declines. Funds that were previously earmarked for Promise scholarships could risk reallocation to meet other institutional needs. Historically, economic downturns have driven more students to pursue higher education [17], yet one in ten high school seniors who were planning to attend a four-year college or university before the pandemic have already made alternative plans, and nearly half of those have said they will enroll at a community college. [18] Over 60% of Promise programs support students at community colleges, putting further demand strains on Promise programs at a time when additional funds and student supports are sorely needed.

As the economy takes a hit, organizations and individuals that have historically supported the Promise will likely bring greater scrutiny to their investment opportunities. Lack of formal fundraising plans and fundraising staff in most Promise programs will make responding to funding disruptions more difficult and will increase the time needed to identify and pursue alternative funding, both to make up for any shortfalls in expected revenue and to reassess program design, especially in regard to supports for addressing COVID-19 related impacts. The new normal will probably catalyze greater competition for philanthropic funding in sectors including and in addition to healthcare and emergency support, criminal justice, and food insecurity -- increasing challenges for Promise programs that lack a fundraising infrastructure.

In the months ahead, locally funded programs that employ a mix of public-private funding from a variety of sources are likely to be among the most resilient and sustainable Promises. These programs are already engaged in executing strategic funding plans and continuous fundraising. They often support their Promises with significant stakeholder commitments across all sectors of the community or state, ideally positioning them to pivot towards identifying and accessing



Programs that pursue a variety of funding streams to sustain their Promise will be the most resilient regardless of how any individual funding opportunity is impacted by COVID-19.

Not only does a diverse fund development strategy ensure all potential funding streams are identified, it can help engage Promise stakeholders from all sectors of the community, ultimately improving outcomes.



sustainable funding streams. Local Promise leaders will typically have secured fundraising staff and a robust infrastructure, enabling them to take advantage of favorable conditions in philanthropy to harness new funding opportunities that have formed in response to COVID-19.

State Promise funds will also face pressures as governors and legislatures look for ways to balance their budgets through and hopefully beyond COVID-19. States that have built strong bipartisan support for Promise with protected multi-year funding allocations will be better positioned to keep the Promises made to their students and communities. And it will be essential for Promise leaders to document the benefits to their students who are ready and able to rebuild and grow the state's economy in the recovery period ahead.

### Recommendations

To achieve financial sustainability in communities and states as a long-term policy goal, College Promise proposes three recommendations to help local and state leaders keep the Promises made to their students and families, as our nation works through the challenges wrought by the COVID-19 pandemic in the months ahead.

*1) Promise programs should aim to diversify sources of funding and seek partnerships both within their community (public and private) and at the state level.*

Programs that pursue a variety of funding streams to sustain their Promise will be the most resilient regardless of how any individual funding opportunity is impacted by COVID-19. Not only does a diverse fund development strategy ensure all potential funding streams are identified, it can help engage Promise stakeholders from all sectors of the community, ultimately improving outcomes. Local programs could particularly benefit from partnering with their respective statewide Promise if they are in one of the 29 states currently administering a statewide program. In these partnerships, local programs can provide targeted services that improve Promise outcomes, while states can provide funding and large scale infrastructure support.

*2) Promise programs should invest in developing and continuously updating a long term strategic plan for financial sustainability with clear fund development goals. This includes investing in the administrative infrastructure and support needed to carry out such a plan.*

The near and mid-term future for Promise program funding is likely to feature heavy variability in funding opportunities. Promises need to clearly examine their programmatic goals and set clear estimates of target funds to be raised, as well as conduct a thorough examination of potential funding sources in their community and state in order to meet their targets. The administrative burden to be agile

enough to respond to changes in revenue streams or to secure and sustain adequate levels of funding is essential for ensuring Promise programs are not forced to cut services or disband all together should a particular funding source become unreliable.

*3) Promise programs should gradually scale their programs up to full target functionality over the course of multiple years to fully account for program costs and growth in demand, as well as to build “proof of concept” evidence to support their ultimate program goals sustainably.*

In the face of reduced funding alongside the possibility of increased demand, Promise programs now more than ever should utilize gradually scalable models for their programs. By properly assessing and adjusting the size of the Promise award, the wrap around services offered, or any number of other programmatic features, Promise leaders can avoid overcommitting to a program they are unable to fiscally sustain. With strong infrastructure and outcomes data, Promise leaders will better assess trends in demand, prospective program costs, and how best to meet the needs of their community or state for future cohorts. As the unforeseen economic impacts progress, Promise programs will likely be more successful in securing investments by demonstrating positive program outcomes and clearly outlined responsive plans for scalability and improvement.

## FINANCIAL SUSTAINABILITY RESOURCES

College Promises to Keep: A Playbook for Achieving College Promise Financial Sustainability

<https://www.collegepromise.org/resources>

Designing Sustainable Funding for College Promise Initiatives

<https://doi.org/10.1002/ets2.12161>

College Promise is a national, non-partisan, non-profit initiative that builds broad public support for funding the first two or more years of postsecondary education for hard-working students, and ensuring those students have access to quality educational opportunities and supports.

Learn more at: [collegepromise.org](https://collegepromise.org) or email [info@collegepromise.org](mailto:info@collegepromise.org)

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