



UCSD CAMPUS NOTICE
University of California, San Diego

OFFICE OF THE ACADEMIC SENATE
FEBRUARY 22, 1993

KEY ADMINISTRATORS/KEY SUPPORT STAFF (021)
OFFICE MAIL DISTRIBUTION CONTACTS (027)

The following may be of interest to all members of the Academic Senate. PLEASE POST THIS NOTICE OR DISTRIBUTE IT IMMEDIATELY so that all Academic Senate members in your department will have an opportunity to see it before President Peltason's visit on February 25.

In preparation for President Peltason's visit and his address to our town meeting on February 25, 1993, Senate members may be interested in the recommendations made to him by a budget retreat of the Academic Council on February 13-15, 1993, and a meeting of that Council on February 17, 1993. As far as I know, no decisions have yet been made by the Office of the President.

Perhaps the principal Council conclusion is that recovery from recession will not enable the State of California to restore UC funding at its former level. Entitlements which have been enacted into the State Constitution or the Statute Books now take 85% of the California budget, and are growing at double digit rates. The most optimistic budget projection is that the recession in California will end within 12 months, and that thereafter the State tax collections will grow at 7% per year. Under this optimistic projection, and assuming that all the Governor's reforms pass, and all his requests for federal money are granted, the UC General Fund (State) budget will grow at about 2.9% per year from \$1.88B in 1992-3 to \$2.6B in 2001-2 (no inflation correction). Less optimistic scenarios suggest a drop of 20% per year from \$1.88B in 1992-3 to \$0.2B in 2001-2.

Even in the most optimistic scenario, UC must downsize significantly if it is to maintain competitive salaries. The short-term budget deficit may be met by a combination of unallocated cuts to the campuses and a one-year salary cut of between 3% and 5%, to be made up from Retirement System (UCRS)

contributions to each member's retirement account. There is a good possibility that Assistant Professors can get the Retirement augmentation and yet be protected from the salary cut. The long-term problem may be met in part by a VERIP III whose takers will be recalled but not replaced, and which will not occur before 1994-5. On a time scale of 3-5 years, program cuts and consolidations on and between campuses may be necessary.

Many Senate members are worried about the solvency of UCRS. That situation is being studied by the Academic Council, and so far there seems to be no real cause for concern. Under current actuarial assumptions, UCRS needs \$6B to meet current liabilities. The IRS allows it to accumulate up to 50% more than this before its tax exemption comes into question; i.e. it can have \$9B in assets. Its current assets amount to \$13B. Of course, the current liabilities increase drastically under different actuarial assumptions, or by improving the now rather exiguous inflation protection for retirees. In addition, about 77% of the UCRS assets are in common stocks. This makes the assets volatile, but historically does provide better inflation protection than a mix richer in bonds.

The following section, entitled, "Budget and Fiscal Review," describes the budget problems in more detail. It is a summary of a discussion at the retreat.

BUDGET AND FISCAL REVIEW

SUMMARY

This session compared estimates of the State's revenue and the University's share of the budget. This was contrasted with estimates of the University's financial needs through the end of the decade. In none of the scenarios was UC's share of the State's revenue sufficient to fund normal operations (3.5% inflation + 4% growth). Council members and UCOP described a jointly developed planning model to assess the impact of the State funding and of four variables under UC's control. The four variables were: Enrollment, Tuition and Fees, Staffing Levels, and Compensation Levels. The model's outcomes suggest that UC's income will not keep pace with expenditures and that this trend will continue past the end of the decade unless there is substantial structural change in the values of the variables.

STATE FISCAL CONDITION

Last year, the State Department of Finance projected a California State General Fund Revenue (CSGFR) of \$90B (billion) by 2001-2. More recently, the Commission on State Finance gave low and high budget scenarios in which $\$64B < CSGFR < \$70B$, with a "best guess" of $\$68.5B$ in 2001-2. They estimate that in 1993-4, $\$38B < CSGFR < \$41B$. The high estimate assumes that the recession bottoms out in 1993-4 and that State revenue grows at 7.1% thereafter. The low estimate assumes that the recession bottoms in 1994-5 and that State revenue grows at 6.4%.

Based on these estimates, Larry Hershman constructed best and worst cases for the UC general fund budget from 1988 to 2001. The best case assumes that the Governor's proposed \$2.6B property tax shift is adopted, the K-14 General Fund base budget is cut by \$ 3.3B in 1993-4, Health and Welfare (H&W) is cut by \$0.88B in 1993-4 as a result of the Governor's proposed reforms and federal reimbursement, H&W growth is limited to 7.9%/year, and Corrections are not protected. In the worst case scenario, the Governor's property tax shift is rejected, the K-14 base budget is not cut, the Governor's H&W proposals and his request for federal reimbursement are rejected, and Corrections are protected at the expense of UC and other discretionary programs. In the best case, the UC general fund budget grows from \$1.88B in 1992-3 to \$2.6B in 2001-2. In the worst case, it shrinks from \$1.88B to \$0.2B in 2001-2.

ENROLLMENTS

Enrollment is a major contributor to UC costs. Under the Master Plan, UC seeks to admit from the top 12.5% of the high school graduating class. Currently, 13.5% are fully eligible based on GPA and test scores. Another 6% are potentially eligible, lacking only the test scores. Though the size of the scores are irrelevant for "eligibility," they are used by campuses for selection. In 1996 there will be a "new wave" of baby boomers that will contribute an additional 6,000 students to the eligibility pool. Under present practices, by the year 2010 there will be 250,000 students at UC. However, campus capacity is only 210,000, leaving 40,000 students unaccounted for.

The planning model that yields the least disparity between income and expenditures for UC includes a 1.2% decline in the number of undergraduates to the year 2001 and no increase in budgeted students from 1992-2001. How this steady state will be accomplished is not clear. Some suggestions were that students will self-selectively not attend because of: (a) fee increases, (b) competition for campus and major of choice, (c) increase in eligibility requirements. Some of these factors will reduce

access indirectly and not necessitate setting a specific limit.

GEORGE E. BACKUS
Academic Senate Chair