



## Reading between the lines: Legislature's fiscal advisers endorse privatizing UC

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<http://today.ucla.edu/portal/ut/the-legislative-analyst-endorses-112789.aspx>

Undoubtedly, you will have seen headlines about a recent report from the Legislative Analyst's Office (LAO) analyzing the dire condition of the California state budget. What those news accounts don't make clear is that the LAO report *de facto* calls for privatizing the University of California. You won't find this in the section of the report on higher education, although there is some general discussion about rising tuition. Rather, privatization is the inescapable implication of an obscure paragraph in a section on state retirement obligations. Specifically, the report says on page 38:

*"No Additional State Payments for UC Retirement Programs Assumed. Consistent with past funding practices, our forecast assumes no additional state contributions between 2009-10 and 2014-15 to cover costs of UC's pension and retiree health programs. Both have unfunded liabilities, and currently, no significant contributions are being paid by UC or its employees to the pension program. Unless UC identifies non-state funding sources for these programs soon, their costs will escalate significantly over the long term."*

Let's parse that paragraph. LAO says that the state has no liability for the UC pension even though the plan is significantly underfunded — that the UC regents are on their own. It goes on to say that the regents have to find "non-state funding" to deal with the unfunded liability.

Finally, LAO also asserts that the lack of state responsibility is consistent with past practice — an assertion that is flatly untrue. Pension contributions were ended when the plan became overfunded in the late 1980s. Previous to that, the state appropriated the employer contributions.

Although the zero-contribution holiday lasted for many years, it was always recognized that the day would come when contributions would have to resume — that earnings on plan assets alone would not be sufficient to cover pension costs forever. And, indeed, the regents made plans, well before the current financial crisis, to resume employer and employee contributions — with the employer share assumed to come from the state, as in the past. However, the economic meltdown in 2008 led to substantial and sudden underfunding. Even the modest restart of contributions that was originally planned is now inadequate.

The word "privatize" does not appear in the LAO's statement on pension liability, but the implication is implicit. Roughly two out of three dollars in UC pension liability are non-state (for federal and other research grant-supported employees, employees supported by hospital revenue, etc.). However, if the employer contribution for state-supported employees remains set at zero, the non-state contribution for non-state supported

employees will also be zero. That is the current situation. Non-state sources such as the federal government will pay the same rate that the state pays. But they will do so only for the employees supported by non-state funding.

LAO effectively wants the regents to come up with the one third owed by the state to the UC pension plan from “non-state funding.” That is code for raising tuition because there is no other source that can or will cover the cost. I am sure LAO would deny saying it endorses privatization of UC. But since the regents can’t come up with non-state money to cover the state’s third without even more tuition increases than already enacted or proposed, the LAO’s message is clear: raise tuition substantially to cover accrued pension liabilities. Don’t expect anything from the state.

Ultimately, the decision is in the legislature’s. If the legislature follows the LAO recommendation — no state money for UC’s pension — it has effectively decided to privatize UC. And it has done so without ever having to face the issue.

Perhaps privatizing UC without saying so is the intent of the LAO. Since LAO’s expertise is precisely in analyzing budgets, it is implausible that the Legislative Analyst does not understand the implication of the position taken in its report. Whatever LAO says or does not say, it has *de facto* recommended privatizing UC. If the legislature goes along, tuition will continue to rise until privatization has occurred.

You may be for or against that result. But don’t you think that matter deserves more airing by LAO than provided in an obscure paragraph on pensions?

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