The impact of pension cost increases on California’s schools

In 2017, CSBA convened a meeting of governing board members from school districts and county offices of education throughout California to examine the effects of rising employer contributions to CalPERS and CalSTRS on their schools, and discuss how these cost pressures are affecting their ability to provide their students with a quality education. Several important takeaways from their findings are reflected in this report.

With pension contributions set to more than double by 2024...

43% said they have already cut programs that are included in their Local Control and Accountability Plan (LCAP).

68% of those who have not yet cut programs anticipate making cuts and/or engaging in deficit spending in the next 2 to 3 years.

1 out of 4 school districts and county offices of education that reported a positive budget certification for 2016-17 have reported a qualified or negative budget certification for 2018-19.

1 out of 3 school districts and county offices of education that reported a positive budget certification for 2018-19 indicate that they made cuts or plan to reduce program spending in order to avoid a qualified or negative budget certification.

In my district, for the 2017-18 fiscal year, ongoing operational costs for major items such as supplies and services, health care and pension costs are projected to increase by $8.2 million while the LCFF increase is projected at $2.2 million, creating a potential structural deficit of approximately $6 million just on the major cost items. Pension cost increases make up $2.7 million of the shortfall.”

The governing board member quoted above represents a district serving 23,544 California students

Question:

Is your school district or county office having to use reserves to cover increasing pension costs?

52% said YES

58% of those who said NO indicate that cuts have already been made to avoid using reserves, or that their reserve level is already down to the state-required minimum.

School districts and county offices of education statewide are facing several mounting cost pressures from healthcare, transportation, utilities, declining enrollment and other sources. CSBA urges additional funding from the state to help offset the impact of increased contributions to pensions as well as the myriad rising costs facing California’s schools.
Update on CalPERS rates

In April, CalPERS’ board approved an increase in the employer contribution rate for the 2018–19 fiscal year. The board’s action did not officially change the employer contribution rates for any other year beyond 2018–19.

2018–19 CalPERS Employer Contribution Rate

| Updated* | 18.06% | Previously Projected: 17.70% |

The table below shows the initial projected contribution rates for CalPERS through 2024, along with newly projected contribution rates, which were amended following the CalPERS board action on April 17. CalPERS will release the final projected rates in September 2018, in its annual Schools Pool Actuarial Valuation report:

Projected CalPERS Employer Contribution Rates through 2024

Note: Projected contribution rates for CalSTRS listed in this report have not yet changed
The scope of CalPERS and CalSTRS increases

In December 2016, the CalPERS board voted to lower the system’s expected rate of return on investments (or “discount rate”) from 7.5 percent to 7 percent. The board of CalSTRS made a similar decision in February 2017. While large increases to employer costs were already expected, these decisions mean that employer contributions to both systems could rise even higher.

Combined PERS/STRS Employer Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>CalSTRS %</th>
<th>CalPERS %</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>8.3</td>
<td>11.4</td>
</tr>
<tr>
<td>2014-15</td>
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<td>24.3</td>
</tr>
<tr>
<td>2023-24</td>
<td>18.0</td>
<td>24.8</td>
</tr>
</tbody>
</table>

Employer contribution rates (percentage of payroll)

Total PERS/STRS costs to schools will more than double over a 10-year period.

IN 2013-14: $3.08 billion

$497 per student

BY 2023-24: $9.15 billion

$1,476 per student

This is more than double the amount that all California school districts currently spend per student on textbooks, audiovisual materials and basic curriculum items.

Current per-student expenditures for books and supplies*: $476

*Source: CA Dept. of Ed., 2015-16

Calculations based on student enrollment

$1,476 is more than double the amount that all California school districts currently spend per student on textbooks, audiovisual materials and basic curriculum items.

In 2013-14, $3.08 billion was spent per student.

By 2023-24, $9.15 billion will be spent per student.

This is more than double. The current per-student expenditure for books and supplies is $476.

Calculations based on student enrollment.

CalSTRS and CalPERS
The grim effects of rising costs on California’s schools

California already ranks 41st nationally in per-pupil funding, $1,961 per student below the national average.

$12,252 National Average
$10,291 California 41st

Source: California Budget & Policy Center through 2015-16

Staff are first to go.
Due to rising pension contributions, school districts and county offices of education with vacant certificated and classified positions are leaving many of those positions unfilled, and temporary staff are not being brought back. Pay increases for existing staff are being reduced or eliminated, making it harder to recruit and retain quality teachers and staff.

Staff cuts invariably result in larger class sizes. California already ranks 45th in pupil-teacher ratios and 48th in pupil-staff ratio.

Pupils per teacher

22.5 California 45th
15.1 National Avg. Source: NEA (2015-16)

All staff: students per staff member

11 California 48th

Cuts are happening now, and it’s only going to get worse
While many school districts and county offices have been able to avoid program cuts in the current year, most if not all recognize that cuts are coming. Many vital programs are being forced to operate with less, or will be cut altogether.

Pensions consuming COLA

Weighted average of pension cost increases in 2017-18 1.87%
Cost-of-living adjustment for K-12 education in 2017-18 budget 1.56%

Weighted average of projected pension cost increases in 2018-19 2.23%
Proposed cost-of-living adjustment for K-12 education in 2018-19* 2.51%

*Initial budget proposal for 2018-19, released 1/10/18

On the chopping block

Some of the programs, initiatives and positions California’s schools have already cut or may soon be forced to cut due to rising costs include:

- Academic coaching
- Administrative staff
- After School Education & Safety (ASES)
- Athletic coaches
- Career Technical Education
- Class size reduction
- Classroom technology
- Community School programs
- Counselors
- Custodial staff
- Early Head Start
- Energy efficiency upgrades
- Food services
- Gifted & Talented Education (GATE)
- Health education & prevention
- International Baccalaureate Program
- LCAP support & technical assistance
- Leadership development
- Music teachers
- Physical Education
- Public safety contracts
- Professional development
- Regional Occupational Centers & Programs
- Science, Technology, Engineering, Math (STEM)
- Special Education aides
- Special Education Transportation
- Summer school
- Textbook adoptions (delayed)
- Transportation
- Tutoring
How California school and county board members say the pension crisis is hurting schools and shortchanging students...

“The district is funding all base program requirements with class sizes averaging 30 to 32… the pension cost impact is not allowing the district to expand MTSS (Multi-Tiered System of Supports) and reduce our class sizes.”

“New dollars in the LCFF/LCAP are earmarked first for STRS/PERS increases. This has prevented the implementation of approximately $1.4 million in new programs for the children in our community.”

“All programs in the district are negatively impacted… new dollars received each year are first earmarked to cover increases in pension costs. Since nearly 90 percent of the budget is salaries and benefits, it is important for the district to remain competitive in order to recruit and retain quality teachers.”

As we have started to explore compensation increases with both bargaining units at the table, the district has made it very clear that the amount of funding available to utilize for any proposed salary increase is limited for the foreseeable future because there will be ongoing increases with STRS and PERS contributions — it has been presented that this is not just a one-time problem, but will be an ongoing situation.”

The governing board members quoted above represent four different California school districts, collectively serving more than 70,380 students.

Outlook for PERS/STRS

In July 2017, both CalPERS and CalSTRS reported double-digit preliminary net returns on investments for the 2016-17 fiscal year:

- CalPERS: 11.2%
- CalSTRS: 13.4%

These better-than-expected returns are certainly good news for both systems; however, employer contribution rates to CalPERS and CalSTRS will not change because of one good year.

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