EQUABLE

Hidden Education Funding Cuts

California School District Profiles of Teacher Pension Debt Payments Eating into K–12 Education Budgets

Contents

About this Project

The growing cost of unfunded pension promises is having direct and immediate influence on the ability of local school districts to serve children. To show how hidden education funding cuts work, we built a dataset of state-level K–12 education spending and combined it with contribution rate data for state pension plans where teachers are participants. Merging these two data types shows how the rate of change in teacher pension costs is growing much faster than education budgets nationally.

Our Hidden Education Funding Cuts project finds that pension costs consumed 14.4% of all funding provided by state governments for K–12 education purposes in 2018, up from 7.5% in 2001. That means even as states have added money to their education budgets over the past two decades, pension costs have grown faster. And that's the hidden cut to state education funding.

But while this picture is clear at a national level with all state spending combined, there are a lot of differences in the hidden education funding cuts when we drill down to the state and school district levels.

This paper reviews a select set of school district profiles in California to illustrate the various ways that the hidden funding cuts have played out from district-to-district. The main report for this project reviews national trends and summarizes some of the variance in how these trends manifest from state-to-state and district-to-district. A separate supplementary analysis examines the variance in hidden funding cut trends at the state level.

Each iteration of our investigation — national, state, and school district — follows a similar approach, exploring first the trends in education spending and then pension debt and costs. Each concludes with an examination of pension costs as a share of state education spending, allowing for a direct comparison to best illustrate the extent to which the growth of pension costs is outpacing education expenditures.

To review data at the national level, visit Equable.org/hiddenfundingcuts and check out: "Hidden Education Funding Cuts: How Growing Teacher Pension Debt Payments Are Eating into K–12 Education Budgets." To see our analysis at the state level, check out: "Hidden Education Funding Cuts: States Have Varied Experiences with Pension Debt Payments Eating into K–12 Education Budgets." To learn more about our data and how we calculate hidden education funding cuts, check out the methodology.

Part 1: The Legacy of AB 1469 Pension Costs for California Education Finances

In the spring of 2014, California lawmakers were staring down a $73.7 billion unfunded liability for the State Teacher Retirement System (CalSTRS). And it was getting worse. According to CalSTRS officials, the shortfall was worsening by $22 million every day and numerous projections indicated the system would be insolvent in 30 years or less if significant changes were not made — in other words, any new teachers hired were facing the potential their pension would not be there once they reached retirement age.[1]

CalSTRS was not always in such a bad place. In 1998, the pension plan was more than fully funded. Shortly thereafter, the California legislature increased benefits — but didn't ensure these would be fully funded for the long run. By 2001, a relatively small funding shortfall of $2.2 billion had emerged, though school districts were holding up their end of the funding bargain and paying at least 100% of the actuarially determined contribution requirements. Problems for CalSTRS really spiraled after this point. Over more than a decade, investment returns were less than expected by the CalSTRS board. The Great Recession of 2008–09 was particularly bad, though this was not the only challenge. Markets totally recovered after 2009, but CalSTRS's funding kept getting worse, in part because the state did not fulfill all of its actuarial funding requirements.

Faced with this dire situation, the California General Assembly, in conjunction with then-Governor Jerry Brown, conducted hearings and engaged in negotiations with teacher unions and school districts across the state. After considerable debate, the negotiations led to the passage of assembly bill 1469 (AB 1469), which sought to reverse CalSTRS's financial trajectory through a gradual increase in contribution rates from plan members, local employers, and the state's general fund.

What the gathered stakeholders failed to adequately consider, however, was how the increase in school district contributions would disproportionately affect different communities, depending on their ability to pay extra pension costs from existing resources.

1 Megerian, Chris (2014, February 20). "No Easy Fix for California's Teacher Pension Crisis." Los Angeles Times.

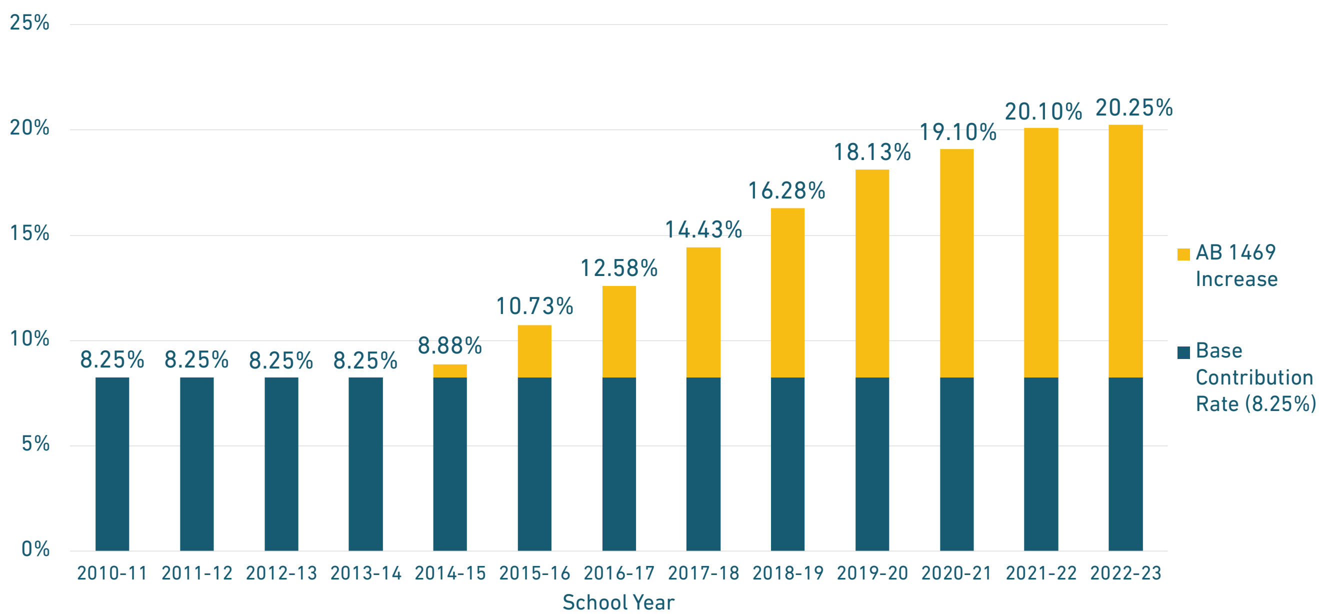
1.1 Understanding the Increases Required by AB 1469

Under the terms of AB 1469, teachers hired before 2013 would see their contributions rise from 8% of their salaries to 10.25%.[2] Teachers hired in 2013 or later, were required to increase their contributions as well, but only up to 9.205% because they were already set to receive smaller pension benefits under a previous legislative change.[3]

These increases were relatively minor, though, compared to the contribution rate changes for CalSTRS employers. AB 1469 was built around a plan to gradually ramp up contributions by both state and school districts over a nine-year period.

The state's CalSTRS contribution was scheduled for an increase from 3.041% of payroll to 6.328% of payroll. Meanwhile school districts were put on a path to have their contributions more than double from 8.25% up to a newly established cap of 20.25% of payroll, shown in Figure 1.[4]

Figure 1: School district contribution rates were slated to more than double as originally adopted under AB 1469.



Contribution Rates as a Percentage of Payroll for CalSTRS Employers

2 The formal term for public school employees covered by CalSTRS is "certificated" workers, but in this paper we use the more colloquial term "teachers" to cover all such employees.

3 These contribution rates correspond with the 2016 values for the 2% at 60 members (those hired before 2013) and the 2% at 62 members (those hired starting in 2013).

4 CalSTRS (2014, June 12). "Bill Analysis. Assembly Bill, AB 1469."

1.2 The Effect of Increased District Pension Costs on California's Schools

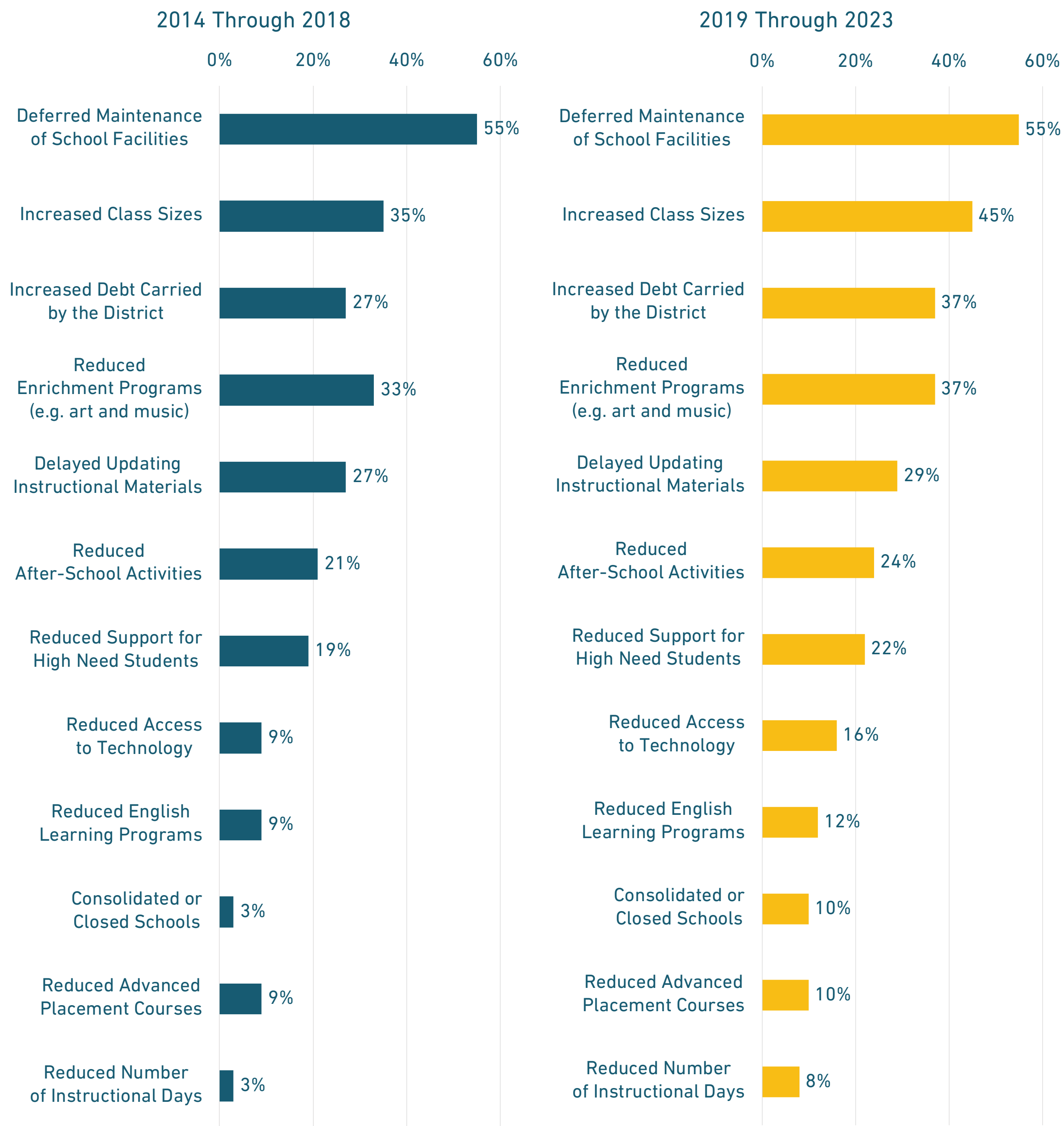
Although AB 1469 marked a positive step for California by attempting to put CalSTRS on a path toward being fully funded, the fiscal burden (in the form of increased contributions) has been primarily passed to school districts. There was no separate fiscal adjustment to ensure budgetary effects did not exacerbate existing resource inequities.

Pivot Learning, a nonprofit that partners with educators to promote educational justice, conducted interviews in 2018 with school district leaders across California to ascertain what the increase in pension costs has meant for their district's bottom line. They asked school board members to consider what resources and services have been negatively influenced as a direct result of growing pension costs, both over the previous five years as contribution rates started to climb, and as projected over the following five years when rates will continue to climb toward their apex in 2022–23. Figure 2 (on the next page) reports some of the results of Pivot's survey.[5]

School district leaders made notable cuts to programs and services or otherwise altered their budgets in response to the growing cost of CalSTRS contributions under AB 1469. The most common measures employed were to defer maintenance of school facilities and increase class sizes, while some have had to face harder choices like reducing the number of instructional days in their school year or even closing schools in their district. Perhaps the most telling result from Pivot's interviews, however, is that district leaders are expecting in the five years following 2018 to use every single measure employed in the five years previous to 2018, and even more frequently.

5 Melincoe, Hannah., et al. (2019). "The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity." Pivot Learning.

Figure 2: School districts have been deferring facility maintenance, increasing class sizes, adding debt, and cutting enrichment programs — all because AB 1469 requires districts to finance the majority of CalSTRS unfunded liabilities.



Percentage of School Districts Reporting the Use of Various Cost-Saving Measures Explicitly Because of Growing CalSTRS Costs, Reported by School Board Members for the Periods 2014-2018 and 2019-2023

Source: Melincoe, Hannah., et al. (2019). "The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity," Figure 3, p. 9. Pivot Learning.

1.3 California's State Budget Response to the Budget Squeeze Created by AB 1469

The AB 1469 ramp up was fully signaled and published for any school district to know about. And yet, districts either did not or could not adequately prepare for the increase.

In the years after 2014, some districts were able to absorb the increased contributions into their budgets using cash savings from previous years. But this only covered the first few years. Other districts had to immediately begin the process of deferring maintenance to school buildings, constraining pay increases for teachers, and cutting enrichment programs.

Wealthier school districts addressed the increased contributions by getting voters to adopt or extend local property tax rates. Districts where taxpayers approved these revenues were able to pay increased teacher pension contributions without cutting programs, but not all communities had the resources to do this.

This growing crunch on school district budgets prompted an adjustment in the 2019–20 California state budget, which provided $700 million in supplementary funding to CalSTRS, spread across two years. These dollars were designed to slow the district contribution rate ramp up, and the effects of this relief are shown in Table 1.[6]

Yet, while this reduction in the contribution rate ramp up was welcome, it did not fully address some of the inequities in how the increased payments have been felt. Because the budgetary relief was distributed equally across districts, wealthier districts that didn't need the help are just as likely to benefit as districts grappling with perpetual insolvency.[7]

6 Legislative Analyst's Office (2019, February 13). "The 2019-20 Budget: Proposition 98 Analysis."
7 Hahnel, Carrie (2019, September). "California's Hidden Pension Gap: State Spending on Teacher Pensions Exacerbates School District Inequities." Bellwether Education Partners.

What should be done about this challenge? The specifics vary from state to state. Get in touch with Equable Institute's policy team to discuss the range of ways the hidden education funding cut problem can be solved: research@equable.org

Table 1: The 2019-20 state budget revised the AB 1469 ramp up of school district contribution rates to provide some budgetary relief.

Year	Base Contribution	Original AB 1469 Increase	2019–20 Budget Adjustment	Net Increase	Total Contribution
2010–11	8.25%	--	--	--	8.25%
2011–12	8.25%	--	--	--	8.25%
2012–13	8.25%	--	--	--	8.25%
2013–14	8.25%	--	--	--	8.25%
2014–15	8.25%	0.63%	--	0.63%	8.88%
2015–16	8.25%	2.48%	--	2.48%	10.73%
2016–17	8.25%	4.33%	--	4.33%	12.58%
2017–18	8.25%	6.18%	--	6.18%	14.43%
2018–19	8.25%	8.03%	--	8.03%	16.28%
2019–20	8.25%	9.88%	-1.43%	8.45%	16.70%
2020–21	8.25%	10.85%	-1.00%	9.85%	18.10%
2021–22	8.25%	11.85%	-0.50%	11.35%	19.60%
2022–23	8.25%	12.00%	-0.50%	11.50%	19.75%

Source: CalSTRS bill analysis of AB 1469; Legislative Analyst's Office analysis of 2019–20 budget.

Note: All figures reported reflect a percentage of payroll.

Part 2: California School District Experiences with Growing CalSTRS Payments

School board members surveyed by Pivot Learning have provided an overview of the kinds of ways that school districts have had to cut programs, services, and compensation in order to meet growing CalSTRS payments. Pivot's research also helps shine a light on how the effects of these cuts are having a disproportionate effect across different racial, demographic, and socioeconomic lines. But how has that variance specifically played out from district-to-district?

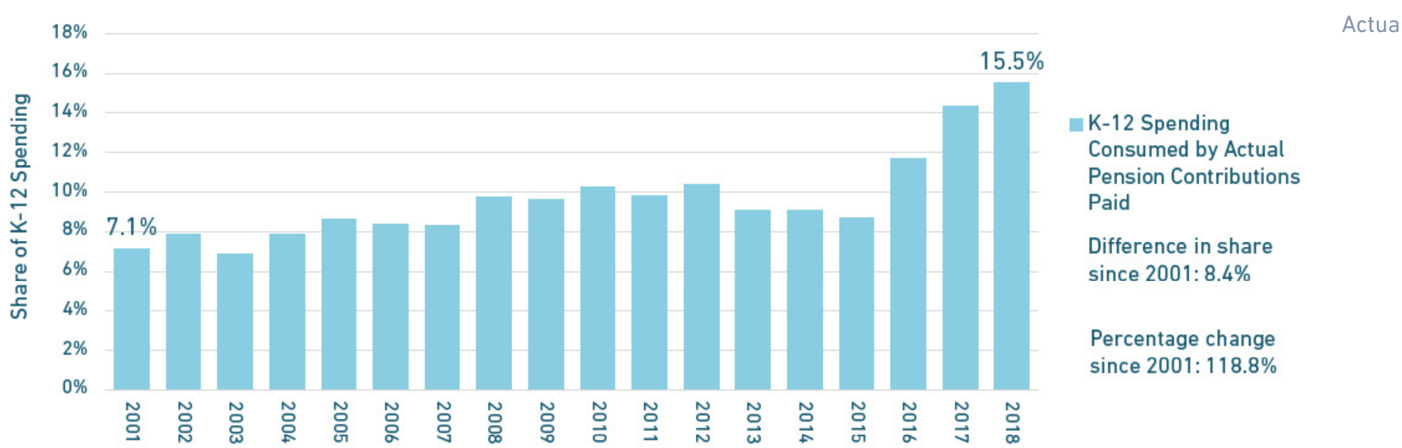
In this section, we drill down into the hidden funding cuts from CalSTRS costs by offering profiles of four California school districts — the largest and smallest in the state, and the median districts for funding and enrollment. The four districts also provide some geographic variety within the state.

For each district profile we show trends in overall spending, changes in categorical spending, and pension costs. Trend lines shown are limited to 2011-2017 based on available data.

We also provide a chart showing the change in total district pension costs (CalSTRS + CalPERS) as a share of district spending. This lets us see in a practical way, what the hidden education funding cut has been for districts.

And as a way of partial comparison, Figure 3 shows what the hidden cut has been for total statewide employer CalSTRS only contributions on *state* budget level K–12 expenditures going back to 2001. Even though the bulk of increasing costs were pushed down to school districts, the effect of the AB 1469 ramp up in contributions is easily recognizable by the notable increases in the share of state education funding going toward pension costs in 2016, 2017, and 2018.

Figure 3: The AB 1469 ramp up in contributions is easily recognizable by the increases in share since 2016.



Pension Costs as a Share of State Own-Source K–12 Spending, 2001–2018

2.1 Los Angeles Unified School District

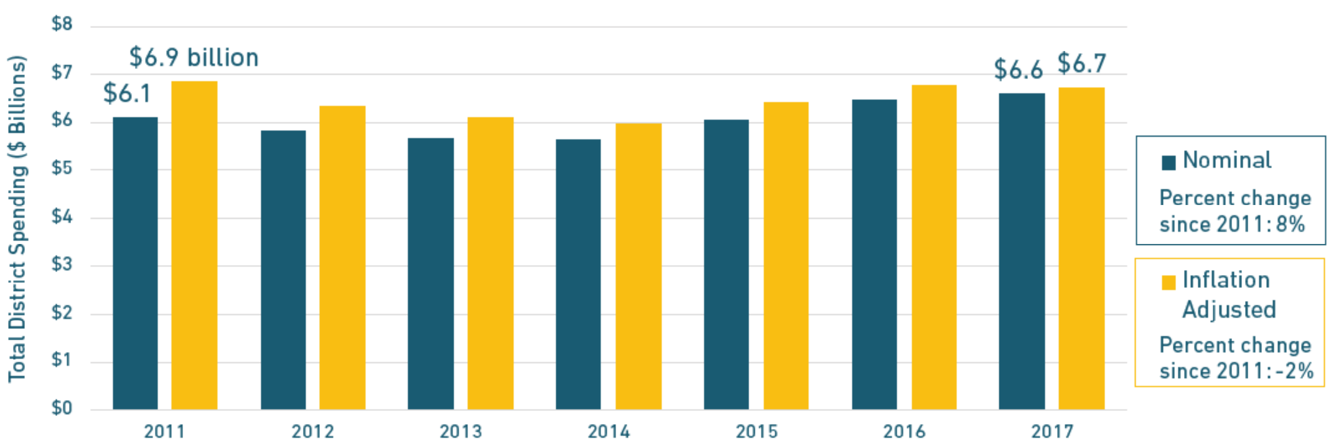
The largest school district in California, and second largest in the country, is Los Angeles Unified School District (LAUSD).

LAUSD is the main school district in Los Angeles County, standing at the heart of the Southern California metropolis. Enrollment in the 2016–17 school year totaled 478,916 students throughout 1,008 schools. That year the district spent $6.7 billion to cover staff salaries, books and supplies, pension contributions to CalSTRS for classroom teachers and "certificated" employees, pension contributions to CalPERS for other public school employees, retiree health benefit costs, and all other operating expenditures. When broken down, LAUSD spent $14,027 per student after adjusting for inflation.

SPENDING HISTORY OVERVIEW

Just as can be seen on national and state levels, current spending figures do not tell the full story. As Figure LAU1 indicates, LAUSD's total spending did not increase very much from 2011 through 2017, going from roughly $6.1 billion to $6.6 billion. After accounting for inflation, however, district spending actually declined, going from $6.9 billion in 2011 to $6.7 billion in 2017 — a 2% decrease.

Figure LAU1: Total education spending for Los Angeles Unified decreased from 2011 to 2017, after adjusting for inflation.



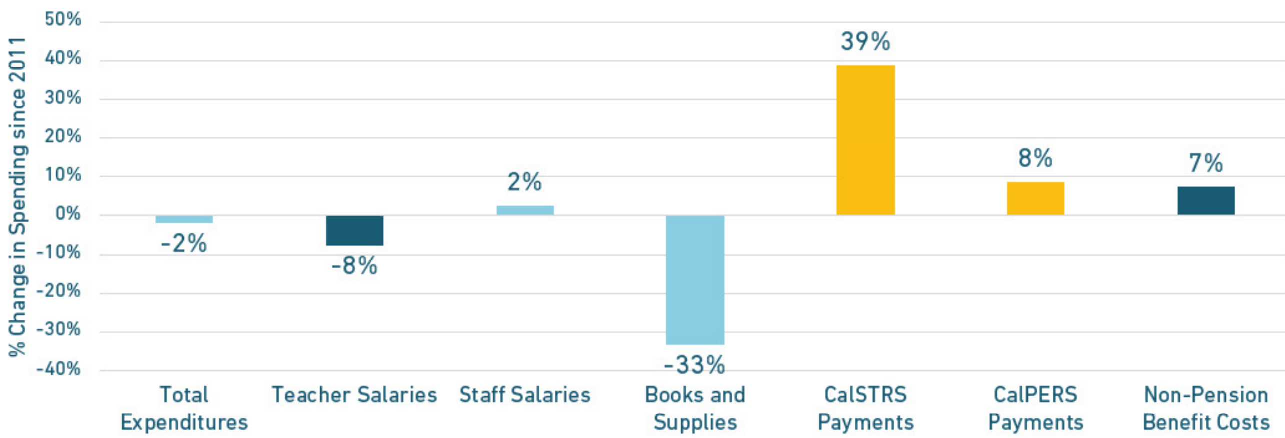
Total District Spending in $Billions, Inflation Adjusted to 2018 Dollars

On a per student basis, declining enrollment in LAUSD from 2011 to 2017 outpaced the decline in total spending. As a result, per student funding increased from $12,285 to $14,027.

DISTRICT SPENDING CHANGES: 2011–2017

While aggregate total spending has decreased over time, costs for CalSTRS need to be analyzed to determine change over the same time period. Figure LAU2 illustrates the aggregate percentage change in inflation-adjusted spending across several areas of the education budget for LAUSD since 2011.

Figure LAU2: Spending on teacher salaries and classroom resources went down between 2011 and 2017, while pension costs and other benefit expenses increased.



Percentage Change in Spending from 2011-2017, by Category (in 2018 Dollars)

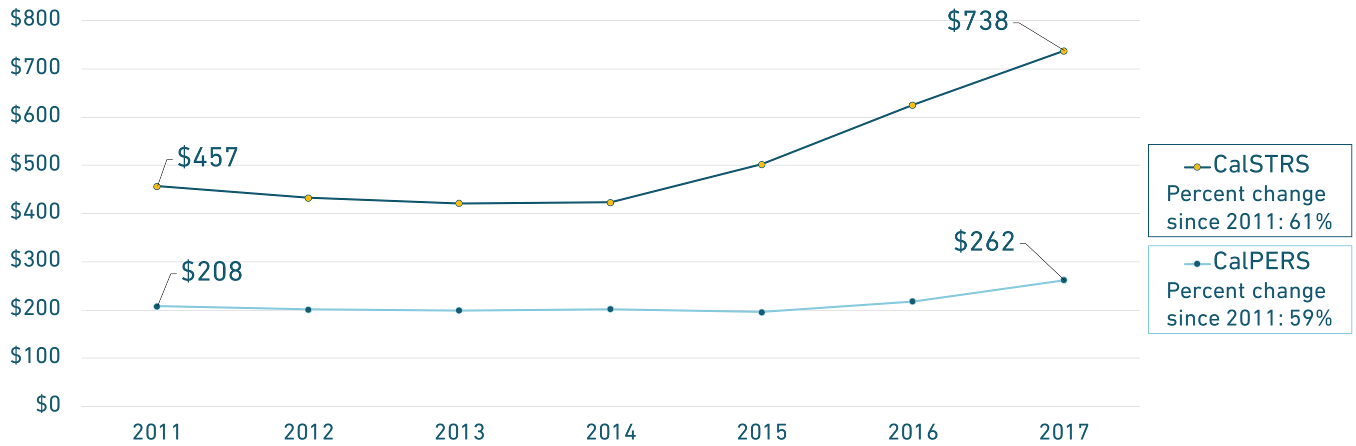
Given the contribution ramp up under AB 1469, it comes as no surprise that LAUSD's contributions to CalSTRS have increased by nearly 40% since 2011. And it is worth noting that, contributions to CalPERS — a retirement system for non-teacher staff and public employees — also increased by 8%. Meanwhile, teacher salaries and books and supplies are the two largest areas of declining spending. This suggests funds that would otherwise be allocated to them were likely shifted to cover the increased pension and benefit costs.

PENSION COST CHANGES: 2011–2017

For some context on how much increasing pension costs have influenced the distribution of resources within LAUSD, Figure LAU3 shows spending on both CalSTRS and CalPERS on a per student basis over time. Despite the declining enrollment in LAUSD that resulted in an increase in per student spending in the aggregate, the growing contribution rates for CalSTRS resulted in an increase in spending from $457 per student in 2011 to $738 per student in 2017.

As we note, the per student spending on both CalSTRS and CalPERS increased moderately from 2011 to 2017; however, when considered relative to the changes in overall per student spending, these costs are outpacing the growth in per student funding (which are a function of declining enrollment, not increased funding). Total per student spending increased by roughly $1,700 from $12,285 in 2011 to $14,027. But if we remove the increasing costs of funding CalSTRS and CalPERS, the increase is only roughly $1,400.

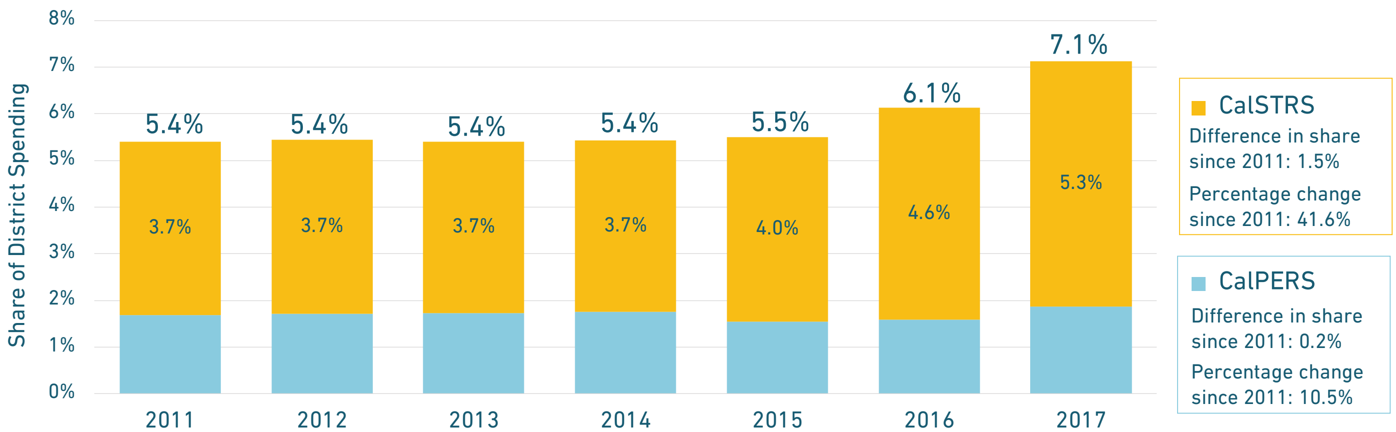
Figure LAU3: District contributions to CalSTRS on a per student basis have nearly doubled since 2014.



District Payments to CalSTRS and CalPERS on a Per Student Basis (in 2018 Dollars)

And finally, Figure LAU4 shows the share of district education spending that went to CalSTRS and CalPERS.

Figure LAU4: District contributions to CalSTRS are more than 40% greater than in 2011 and will only continue to grow for the next several years.



As Figure LAU4 shows, total retirement costs (combined CalSTRS and CalPERS) were relatively constant from 2011 through 2014. Since the passage of AB 1469, the share of district spending going to CalSTRS has increased from 3.7% in 2014 to 5.3% in 2017 — a 41.6% increase. Moreover, AB 1469 calls for district CalSTRS contributions to keep ramping up for the next several years, suggesting this share will only continue to grow.

It is clear that LASUD has been forced to reduce spending on student resources and teacher salaries as primary means of dealing with increased teacher pension costs. These financial cuts and reductions were contributing factors to the fiscal pressures that ultimately boiled over in the form of a LAUSD teacher strike in early 2019.

2.2 Byron Union Elementary District

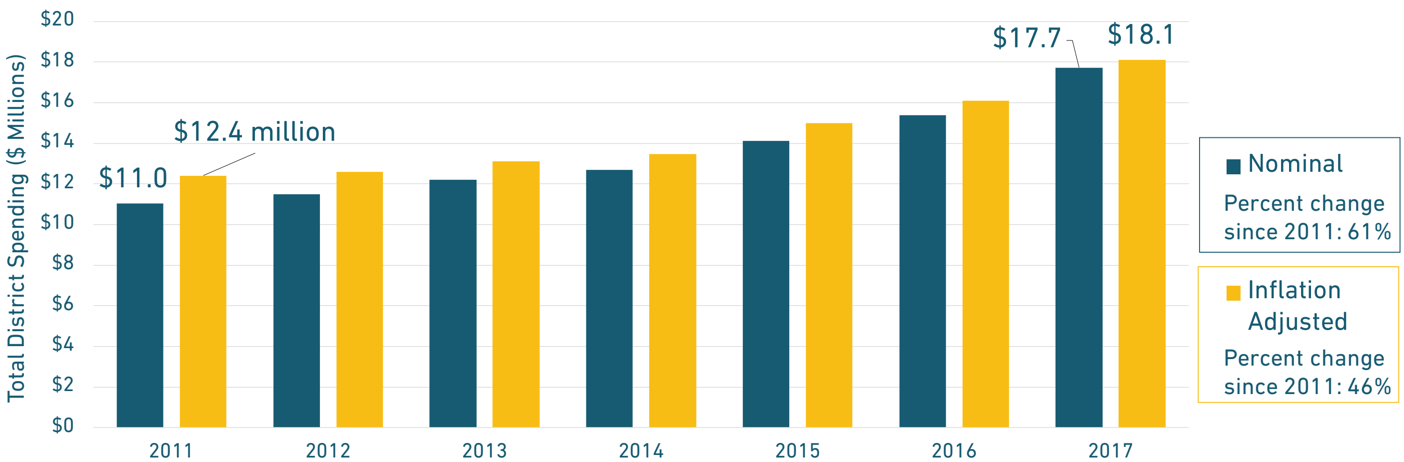
Byron Union Elementary (BUE) represents the opposite end of the spectrum from LAUSD, as the smallest district in California.

The district is nestled in Contra Costa County, located East of Berkeley and the San Francisco metro area but still to the West of Stockton. In the 2016-17 school year the smallest district in the state had a total of 1,600 students enrolled in its four rural schools. That year the district spent $18.1 million to cover costs, which breaks down to $11,315 per student, after adjusting for inflation.

SPENDING HISTORY OVERVIEW

If we look to the trends in aggregate spending, Byron Union Elementary saw considerable growth from 2011 through 2017—increasing from $12.4 million to $18.1 million, as shown in Figure BUE1. Despite being the smallest district in the state, enrollment declined in Byron Union over the period. As a result, the growth on a per-student basis is comparable—the district spent $7,183 per student in 2011 and $11,085 in 2017—a 58% increase.

Figure BUE1: Total education spending for Byron Union Elementary increased nearly 50% from 2011 to 2017, after adjusting for inflation.

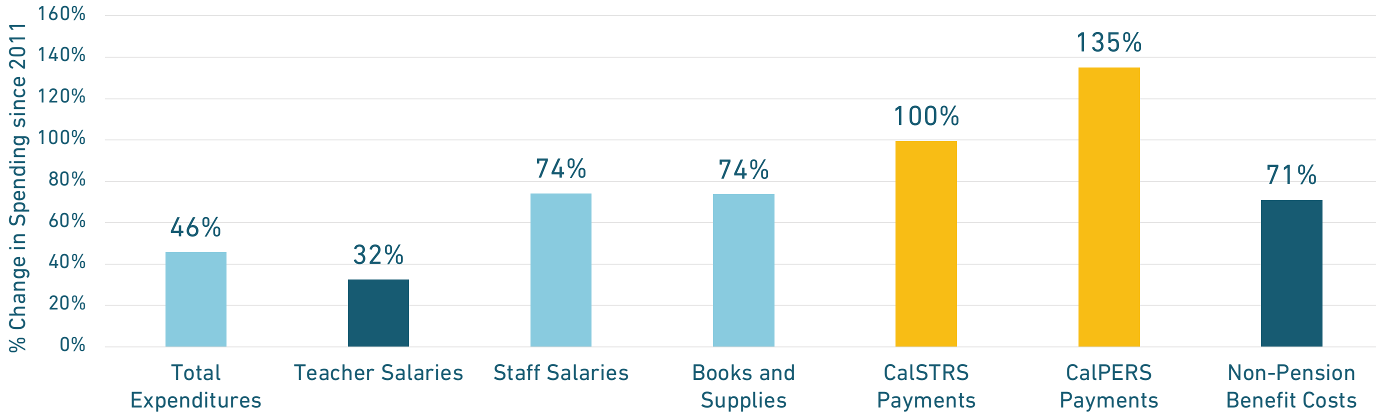


Total District Spending in $Millions, Inflation Adjusted to 2018 Dollars

DISTRICT SPENDING CHANGES: 2011–2017

In contrast to LAUSD, where CalSTRS and CalPERS payments easily outpaced all other spending items, for Byron Union Elementary the changes in spending are much closer. Measured as percentage changes, CalSTRS and CalPERS are still the two fastest growing areas of spending. However, measured in 2018 dollars, teacher salaries grew by nearly $2 million from 2011 to 2017, while CalSTRS and CalPERS combined both only grew by roughly $685,000. Pension costs are clearly outpacing the growth in other expenditure areas for the district, but they are more comparable to the other budget items that one would hope is growing in school districts.

Figure BUE2: Spending on all categories increased between 2011 and 2017, though pension costs grew the fastest.

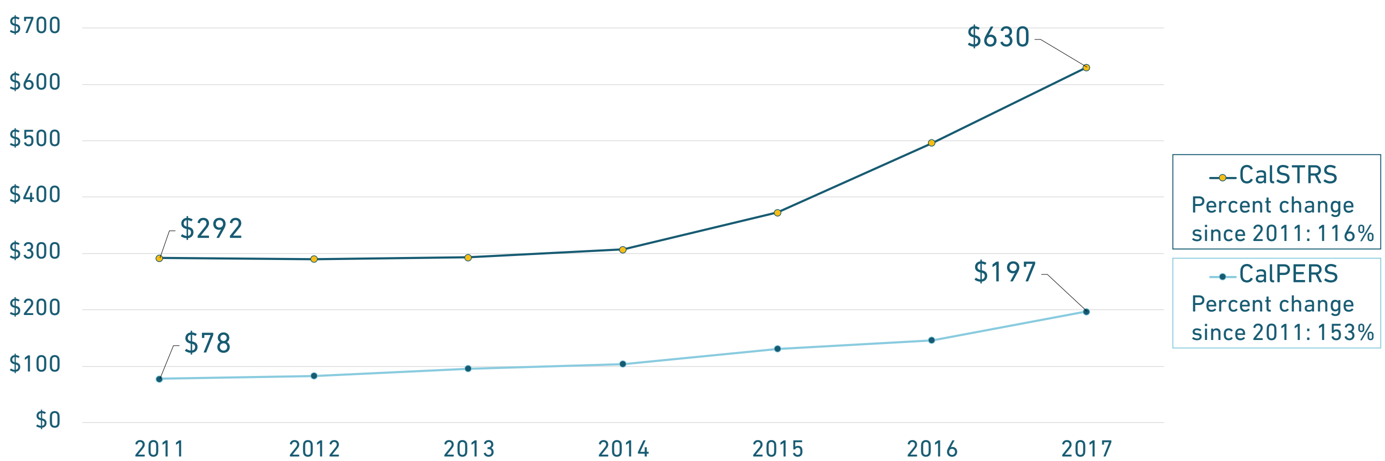


Percentage Change in Spending from 2011-2017, by Category (in 2018 Dollars)

PENSION COST CHANGES: 2011–2017

For some context on how much increasing pension costs have influenced the distribution of resources within Byron Union, Figure BUE3 shows spending on both CalSTRS and CalPERS on a per student basis over time. The growth in Byron Union Elementary pension costs appear to be completely driven by the AB 1469 contribution rate ramp up. From 2011 to 2014, the contributions to CalSTRS remained largely unchanged, only increasing by $15 per student. However, starting in 2015, the first year that would have seen an impact of AB 1469, CalSTRS payments for the district increased by $66 per student, marking the start of a trend that has seen costs climb north of $600 per student in 2017 — more than double what the district had been paying for teacher retirement benefits as recently as 2014.

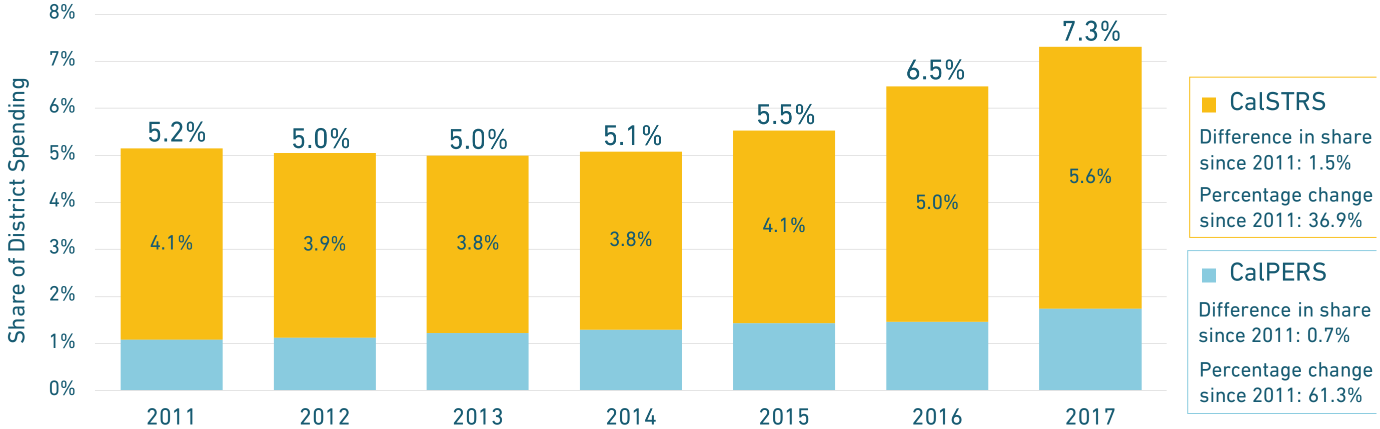
Figure BUE3: District contributions to CalSTRS on a per student basis have more than doubled since 2014.



District Payments to CalSTRS and CalPERS on a Per Student Basis (in 2018 Dollars)

And finally, Figure BUE4 shows the share of district education spending that went to CalSTRS and CalPERS.

Figure BUE4: District contributions to CalSTRS are more than 35% greater than in 2011 and will only continue to grow for the next several years.



Actual District Payments to CalSTRS and CalPERS as a Share of District Spending

Byron Union has been able to increase overall district spending over the past several years, unlike the net cuts required for LAUSD. However, a significant portion of that increase has been for pension costs. In 2011, CalSTRS and CalPERS costs were 5.2% of district spending, but by 2017 the pension share of district spending was 7.3%. Just like in most other districts across the state, the expansion in pension costs appears to have been driven primarily by the AB 1469 ramp up. However, unlike LAUSD, the growth in the share of district spending being consumed by CalSTRS costs is slower because of the growing total district education funding.

2.3 Merced Union High School District

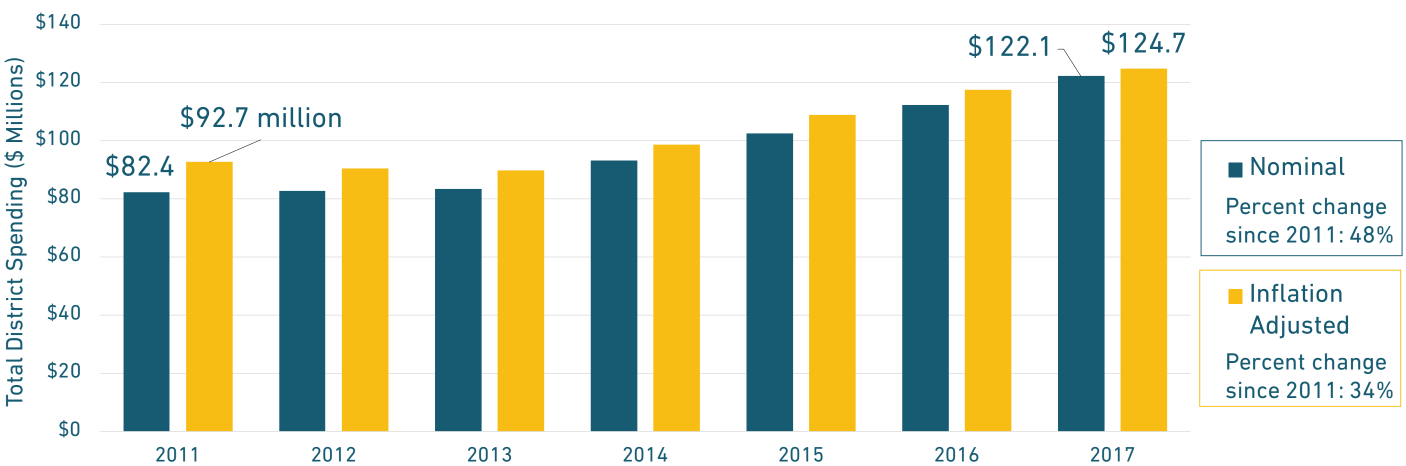
Merced Union High (MUH) is a middle-of-the-road district based on enrollment figures, located in Merced County, placing it in the middle of the state roughly 90 miles from Yosemite National Park.

In the 2016-17 school year the district was home to 10,377 students spread across 9 schools. That year Merced Union High spent $122.1 million to cover their teacher salaries, operations, and other costs. Broken down to be comparable across districts, total spending for the district was $12,014 per student once adjusted for inflation.

SPENDING HISTORY OVERVIEW

Looking to the trends in Merced Union High's spending, there has been significant growth even after accounting for inflation, as spending increased by $32 million from $92.7 million in 2011 to $124.7 million in 2017, shown in Figure MUH1.

Figure MUH1: Total education spending for Merced Union increased by more than one-third from 2011 to 2017, adjusting for inflation.



Total District Spending in $Millions, Inflation Adjusted to 2018 Dollars

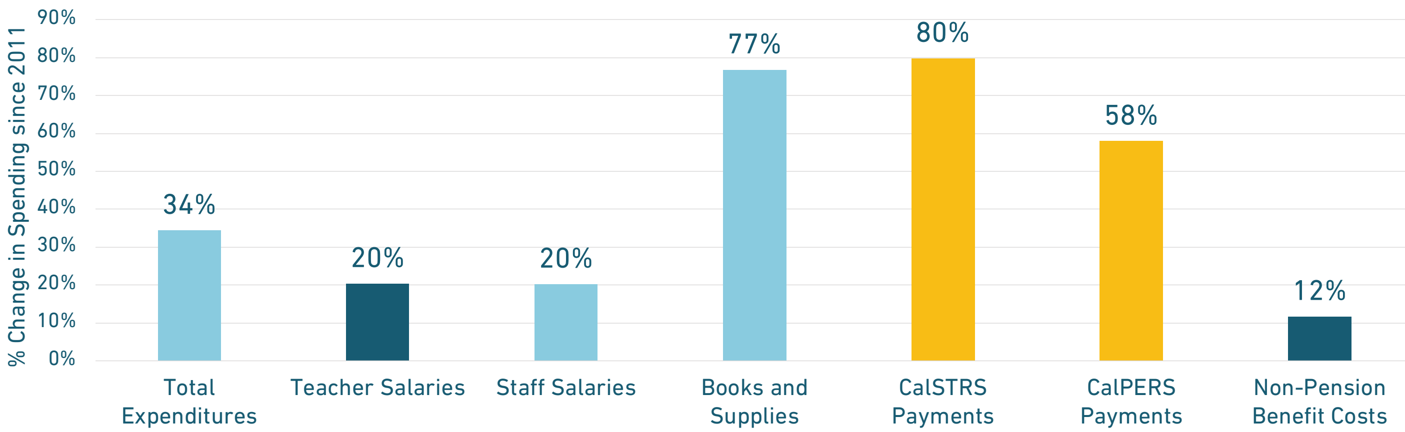
Unlike both LAUSD and Byron Union Elementary, Merced Union High has seen minor growth in enrollment over the period examined. As a result, growth on a per student basis is slightly slower than the aggregate figures would indicate. Total spending on a per student basis was $12,104 in 2017 which was up 29% from the $9,337 per-student in 2011.

DISTRICT SPENDING CHANGES: 2011–2017

Although the aggregate total spending has increased over-time, we are most interested in how the costs for pensions, specifically CalSTRS, have changed over the same time period. Figure MUH2 illustrates the aggregate percentage change in inflation-adjusted spending across several areas of the education budget for Merced Union High since 2011.

The spending area changes for Merced Union High are more like Byron Union Elementary in that spending has increased across the board. However, unlike the prior two districts, Merced Union High has a similar growth rate for Books and Supplies when compared to CalSTRS and CalPERS. In fact, as Figure MUH2 shows, expenditures on books and other instructional materials exceeded CalPERS's growth. However, CalSTRS costs grew faster than any other category at 80%.

Figure MUH2: Overall spending increased between 2011 and 2017, but CalSTRS expenditures were larger than anything else.



Percentage Change in Spending from 2011-2017, by Category (in 2018 Dollars)

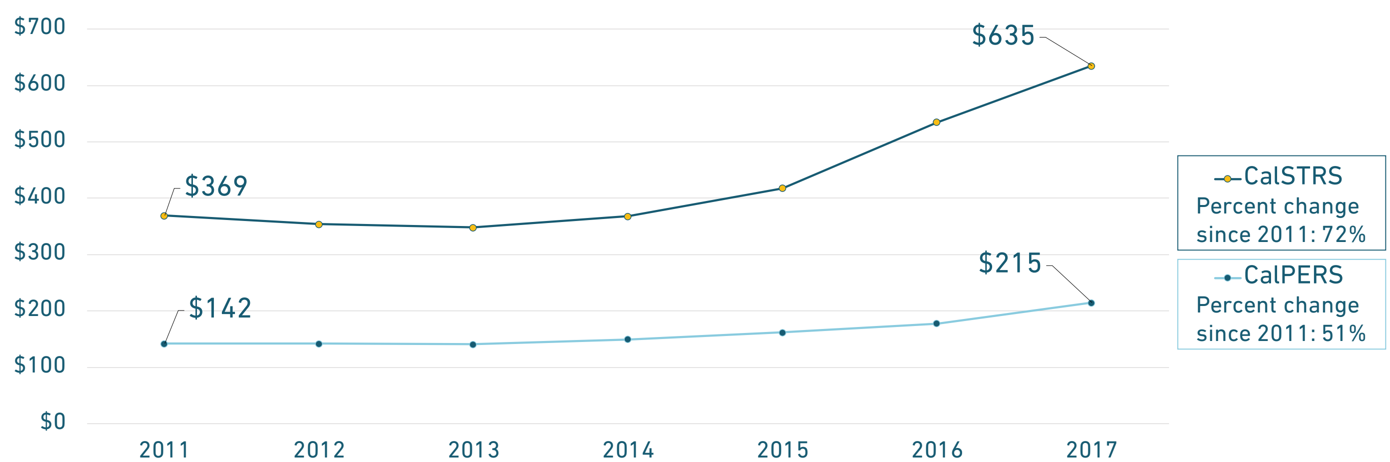
The similar growth rates for supplies and CalSTRS payments also reflect comparable totals in real dollars, as district CalSTRS payments increased by $2.9 million while spending on instructional materials increased by $3.2 million.

PENSION COST CHANGES: 2011–2017

For some context on how much increasing pension costs have influenced the distribution of resources within MUH, Figure MUH3 shows spending on both CalSTRS and CalPERS on a per student basis over time.

As Figure MUH3 shows, the per student spending on both CalSTRS and CalPERS increased moderately from 2011 to 2017; however, when considered relative to changes in overall spending, these costs are outpacing the growth in per student funding. Total per student spending increased by roughly $2,700 from $9,337 in 2011 to $12,014 in 2017. But if we remove the increasing costs of funding CalSTRS and CalPERS, the increase is only roughly $2,300.

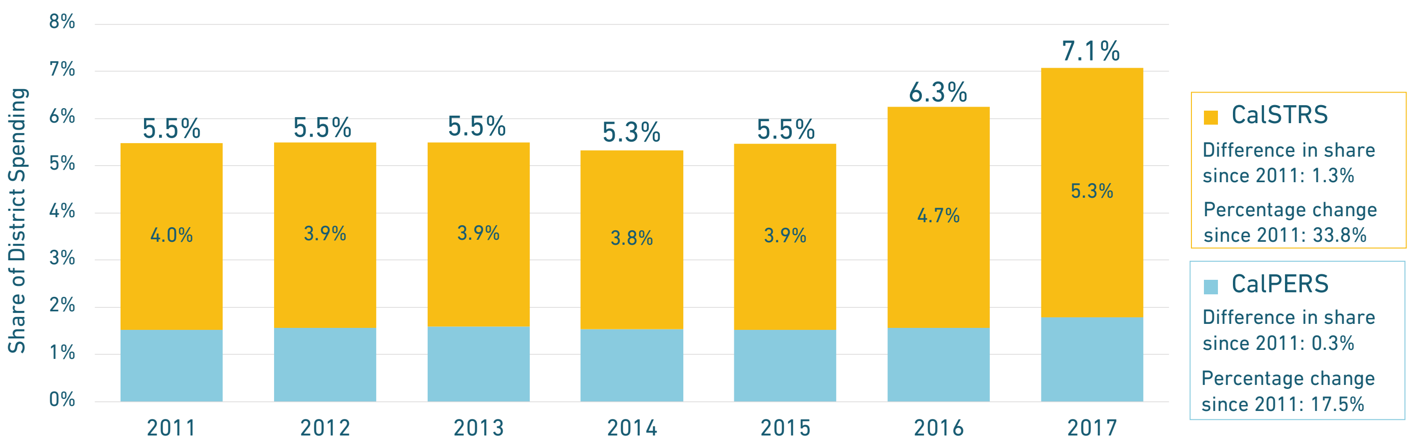
Figure MUH3: District contributions to CalSTRS on a per student basis have increased by more than 70% since 2014.



District Payments to CalSTRS and CalPERS on a Per Student Basis (in 2018 Dollars)

And finally, Figure MUH4 shows the share of district education spending that went to CalSTRS and CalPERS.

Figure MUH4: District contributions to CalSTRS are more than a third greater than in 2011 and will only continue to grow for the next several years.



Similar to both prior districts, we find that most of the increase in CalSTRS spending has been the result of the AB 1469 ramp up, as Figure MUH4 shows. The share of district spending going toward pension costs prior to AB 1469 was practically flat around 5.5%. Since the bill's passage, the share of district spending going to CalSTRS has increased from 3.8% in 2014 to 5.3% in 2017 — a 33.8% increase. Moreover, it is important to note that AB 1469 calls for district CalSTRS contributions to keep ramping up for the next several years, suggesting this share will only continue to grow.

2.4 Vallejo City Unified District

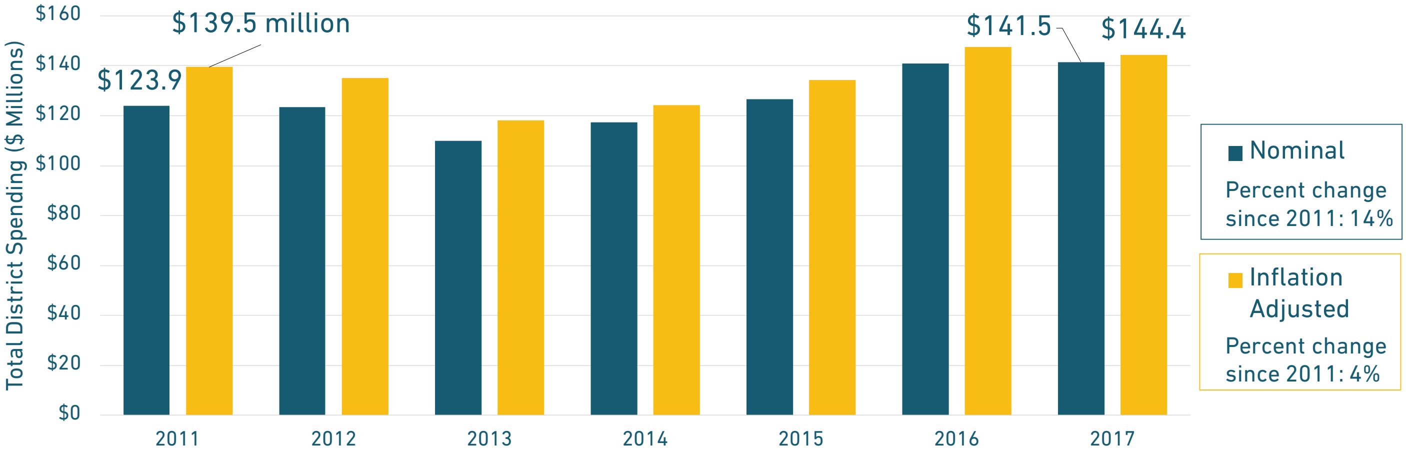
Located on the northern shore of San Pablo Bay in Solano County, about an hour's drive away from San Francisco, Vallejo City Unified (VCU) is another middle-of-the-road district close in proximity to the state median in both total enrollment and spending.

In the 2016-17 school year Vallejo City Unified was home to 12,843 students spread across the district's 27 schools. In terms of expenditures, the district spent $141.5 million to cover their operating costs that year. To follow suit from our previous analyses, if we calculate that spending to be comparable across districts, Vallejo City Unified expended $11,246 per student once adjusted for inflation.

SPENDING HISTORY OVERVIEW

Unlike Merced Union High, which compares much more closely in terms of size, location, and total spending, the trends in Vallejo City Unified spending are much closer to what we observed in LAUSD. Spending has grown slowly in the district, where, once we account for inflation, total expenditures only increased by $5.9 million from $139.5 million in 2011 to $144.4 million in 2017. Following what seems like a state trend, enrollment in Vallejo City Unified has declined gradually, losing 1,500 students over the period examined. Yet the shrinking student population only changes the growth rate for spending when we calculate it on a per student basis, with inflation adjusted spending only increasing 15% from 2011 to 2017.

Figure VCU1: Total education spending for Vallejo City Unified was effectively unchanged from 2011 to 2017, after adjusting for inflation.

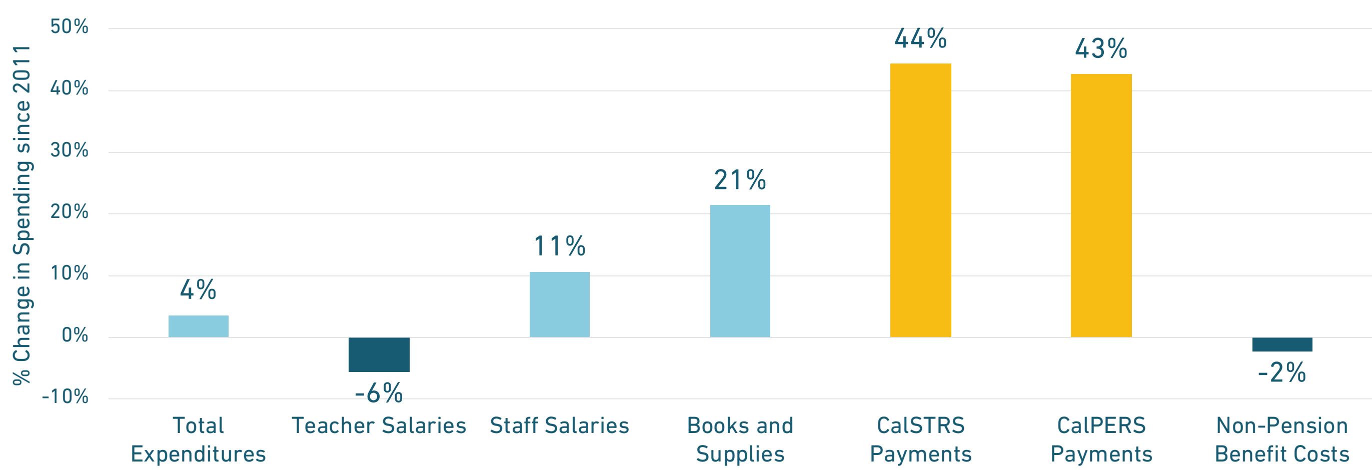


Total District Spending in $Millions, Inflation Adjusted to 2018 Dollars

DISTRICT SPENDING CHANGES: 2011–2017

With a similar aggregate trend in spending as LAUSD, it is unsurprising to see similar results emerge when examining the changes in education spending area for Vallejo City Unified. As Figure VCU2 indicates, by a two-to-one margin growth in payments to both CalSTRS and CalPERS outpaced the next nearest area, books and supplies. When compared in real 2018 dollars, payments to CalSTRS increased by $2.2 million between 2011 and 2017 while spending on books and other instructional materials only increased by $1.3 million.

Figure VCU2: Spending on teacher salaries declined between 2011 and 2017, while pension costs increased.



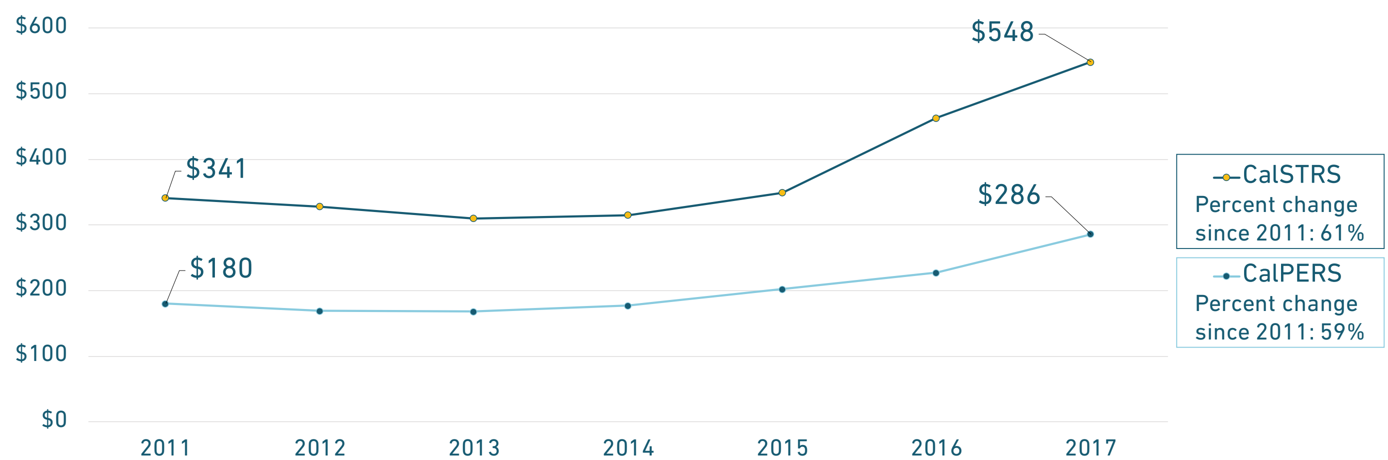
Percentage Change in Spending from 2011-2017, by Category (in 2018 Dollars)

Like LAUSD, Vallejo City Unified also experienced a moderate decline of 6 percent in teacher salaries. When examined in real dollars, this translates into a $3.5 million dollar drop in teacher salaries, roughly equal to the combined $3.3 million increase in payments to CalSTRS and CalPERS. While it cannot be said that all of the dollars that were going toward teacher salaries have been rerouted to offset the growing pension costs from CalSTRS and CalPERS, the simple fact is that less is being spent on teacher salaries in 2017 than in 2011.

PENSION COST CHANGES: 2011–2017

For some context on how much increasing pension costs have influenced the distribution of resources within the district, Figure VCU3 shows spending on both CalSTRS and CalPERS on a per student basis over time. The growth in Vallejo City Unified pension costs appear to be completely driven by the AB 1469 contribution rate ramp up. From 2011 to 2014, the contributions to CalSTRS remained largely unchanged, actually decreasing by $26 per student. However, starting in 2015, the first year that would have seen an impact of AB 1469, CalSTRS payments for the district increased by $34 per student, marking the start of a trend that has seen costs climb near of $550 per student in 2017 — over $200 more than the district had been paying for teacher retirement benefits as recently as 2014.

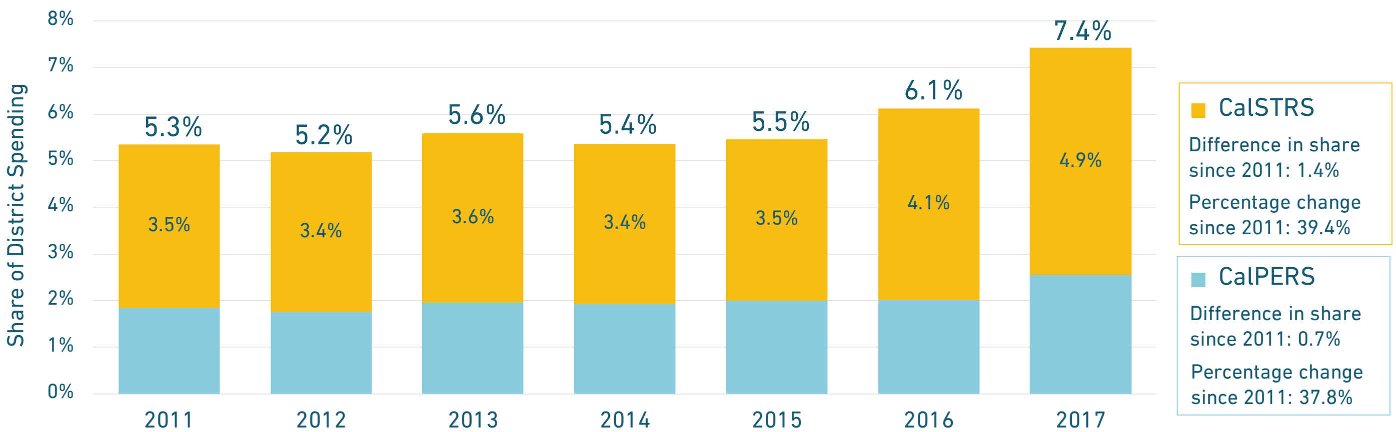
Figure VCU3: District contributions to CalSTRS on a per student basis have nearly doubled since 2014.



District Payments to CalSTRS and CalPERS on a Per Student Basis (in 2018 Dollars)

And finally, Figure VCU4 shows the share of district education spending that went to CalSTRS and CalPERS.

Figure VCU4: District contributions to CalSTRS are nearly 40% greater than in 2011 and will only continue to grow for the next several years.



Actual District Payments to CalSTRS and CalPERS as a Share of District Spending

The trend in per student pension payments for Vallejo City Unified follows the same trend as the other three districts where we find that most of the increase in CalSTRS spending has been the result of the AB 1469 ramp up, as Figure VCU4 shows. The share of district spending going toward pension costs prior to the AB 1469 ramp up was more volatile than the other districts, varying between 5.2% and 5.6% of district spending.

Once the AB 1469 ramp up began, though, the trend is the same as for other districts. From 2015 to 2017 the share of district spending going to CalSTRS has increased 39.4% from 3.5% in 2015 to 4.9% in 2017. And, just like with the other districts, it is important to note that AB 1469 calls for district CalSTRS contributions to keep ramping up for the next several years, suggesting this share will only continue to grow.

Part 3: California is Using Dollars Meant to Educate Children for Financing Pension Debt

Pivot Learning spoke with school board and district leaders across California in 2018 to learn about the effects of growing pension costs. District leaders spoke of having to increase class sizes in order to afford keeping music and dual language immersion programs going. They warned that salaries were being curtailed as benefit costs consumed more revenue. In some cases, they discussed finding cost savings through workforce reduction by attrition — as teachers retire their positions just aren't being filled by new teachers.

These all are tangible ways in which students today are being affected by the growing costs of CalSTRS and the legislature's approach to requiring school districts to pay an increasing amount toward those costs. It is important to remember that the reason that costs are rising for the teacher pension plan is because of unfunded liabilities — the roughly $100 billion shortfall that CalSTRS has accumulated due to a mix of state failure to always pay required contributions, underperforming markets, and demographic changes. Districts don't have any control over the management of CalSTRS or the factors leading to the cost increase, and yet they are still having to foot the bill.

That increasing pension bill is influencing kids. California is financing CalSTRS pension debt by constricting district funding. Districts are struggling to handle the burden.

As the profiles of the four districts in the preceding pages show, the specifics of district spending and priorities vary from district-to-district. However, they are all facing the same trend — CalSTRS (and to a lesser degree CalPERS) are consuming a larger share of their budgets, and that trend will only continue for the next several years.

Districts that budget five years out to understand their costs may be in a better fiscal position today, but likely also are offering lower pay raises. Districts that did not fully anticipate these costs may be reducing enrichment programs. And still other districts might be taking on debt of their own or allowing their facilities to fall into disrepair.

All of this demands that there should be another way to ensure CalSTRS remains solvent and provides retirement security to teachers across the state. A way that doesn't put the squeeze on local school districts.

As we pointed out in our national paper, to solve this overall challenge it is important to recognize that teacher pensions are not inherently the problem. Pensions can offer a pathway for public school teachers to have a secure retirement where they can end their careers with dignity, respect, and the comfort of knowing they earned their benefits while educating America's youth. The real culprit in this story is pension debt — the unfunded liabilities and their costs — that has been allowed to accumulate over years of neglect by lawmakers, administrators, and other policymakers. Without any action, the problem is likely to only grow worse as pension costs increasingly cut into education budgets.

About The Authors

Jonathan Moody is vice president of Equable Institute, where Anthony Randazzo is executive director. Moody has worked on state fiscal policy since 2014 including time as research officer at the Pew Charitable Trusts. Randazzo has worked with over a dozen states on retirement system improvements, and formerly was managing director of the Pension Integrity Project.

Appendices, Methodology, And Sources

The analysis reported in this paper is based on two unique datasets compiled by Equable researchers as part of our Hidden Education Funding Cuts project. For more details on the data sources and methodology, visit Equable.org/hiddenfundingcuts and download the methodology.