The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity

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Pivot Learning

- Pivot Learning is a nonprofit organization whose mission is to partner with educators to design and implement solutions to their greatest challenges in achieving educational justice.
- We believe that in order to achieve real improvement in student outcomes, we must collaborate with educators to design agile solutions, measure their effectiveness and potential for sustainability and scalability, and deploy them in our nation's neediest schools.

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California must maintain its commitments to retirees, invest in and support teachers, and provide its diverse student population a high-quality education. How does it do all of this in an era of inadequate revenues, massive unfunded pension labilities, and other soaring costs?

The Big Squeeze explores these questions.

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Contents

Introduction & Methods

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California Policy Timeline

- 2012: Proposition 30 increased spending on K-12 education in California. (Renewed by Proposition 55 in 2016)
- 2013: Local Control Funding Formula (LCFF) provided weighted funding for high-need students, along with increased flexibility in school district spending.
- 2014: AB1469 increased the amount local school districts pay into the pension system over 10 years.
  - Pension contributions increased from $500 per pupil in 2013-14 -> $1,600 per pupil in 2020-21

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Research Context

- Other researchers have asked:
  - Have districts used their weighted funding and increased flexibility to provide additional services to high need students targeted by LCFF?
  - What are the potential impacts of rising pension and other costs on overall education spending?

- There has been less research on how increasing pension obligations have impacted educational equity and services for the high-need student populations targeted by LCFF.

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Our Research Questions: Bridging the Gap

- What is the magnitude and extent of pension and other benefit costs on California school districts? What factors contribute to and/or exacerbate this impact?
- How are increasing pension obligations impacting overall district spending?
- How are increasing pension obligations impacting district spending on high-need students?

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Methods

- Pivot Learning collected extensive data regarding the impact of rising pension obligations on school districts using the following methods:
  - California School Boards Association (CSBA) survey of school board presidents
  - 10 year longitudinal budget database from a sample of 150 school districts – 25,000+ data points
  - Interviews and focus groups with state, school district and community leaders

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Methods, Continued

Method	#
CSBA Survey	• 115 responses from school board presidents
Longitudinal Budget Data	• 150 districts in representative sample • 10 years of data • 3 years of current and projected data manually collected and entered by Pivot
Interviews & Focus Groups	• 10 leaders from 7 districts • 7 state budget experts and other leaders

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Findings

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Summary of Findings

- Pension costs, as a proportion of district budgets, have risen dramatically in the last six years and will continue to increase.
- District leaders must contend with not only increasing pension obligations, but also other rising costs.
- Increasing pension and employee benefit costs are impacting district spending on teacher salaries.
- Districts have made cuts to programs and services and expect to make more cuts in the future because of pension costs.
- In order to pay for pension cost increases, districts are tapping into funding sources intended to serve low-income students and English learners.

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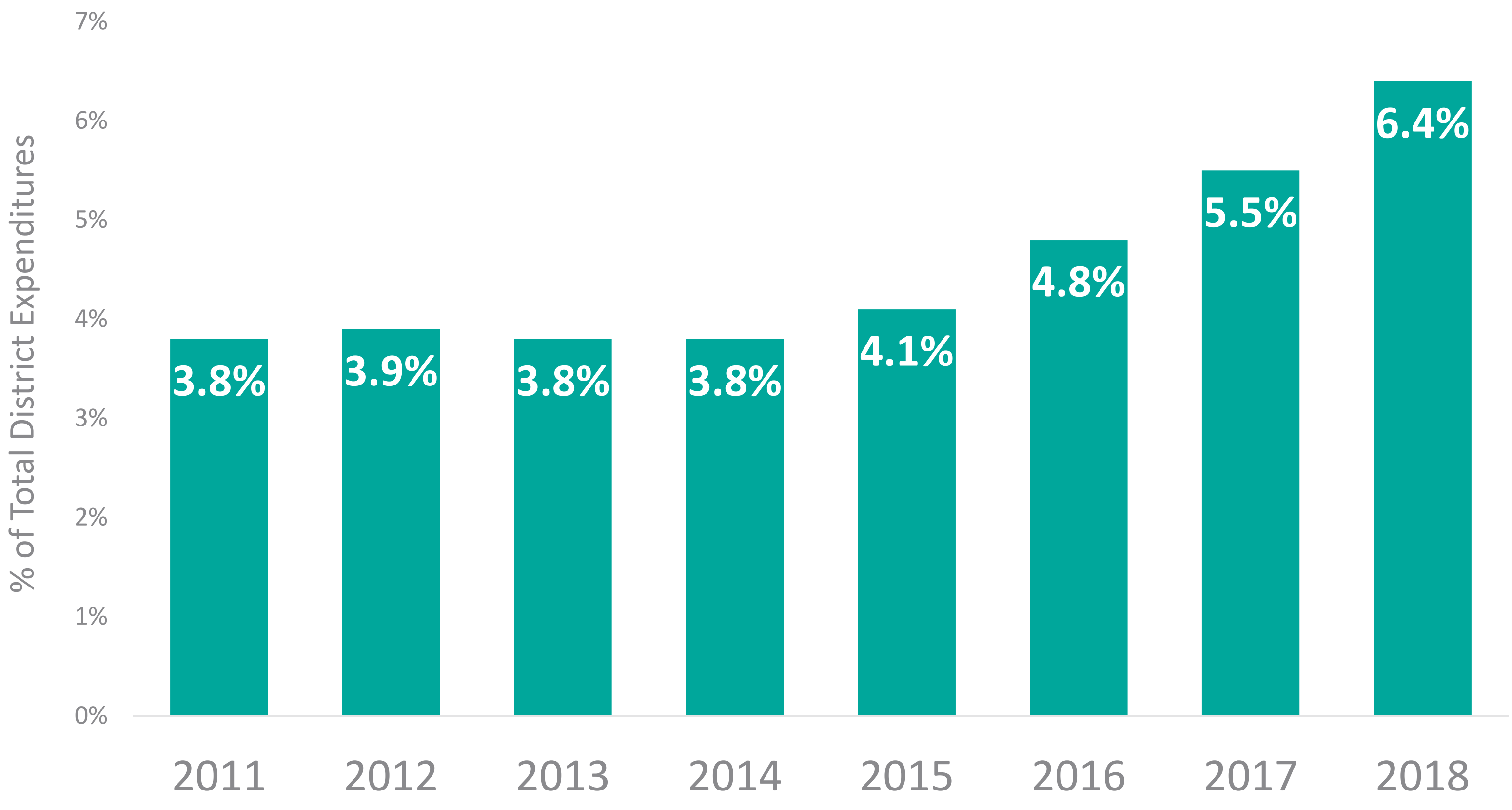
Pension costs as a proportion of district budgets have risen dramatically in the last six years.



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District leaders must contend with increasing pension obligations and other rising costs.

- Other expenses, such as special education, energy, and wages, are also on the rise.

[State policymakers who believe districts should be able to absorb these costs]"omit step and column, they omit rising operational costs, such as the fuel tax increase, and how it affects our services for delivery of food. ***Our costs for all services continue to grow****."*

-Leader from mid-sized Central Valley district

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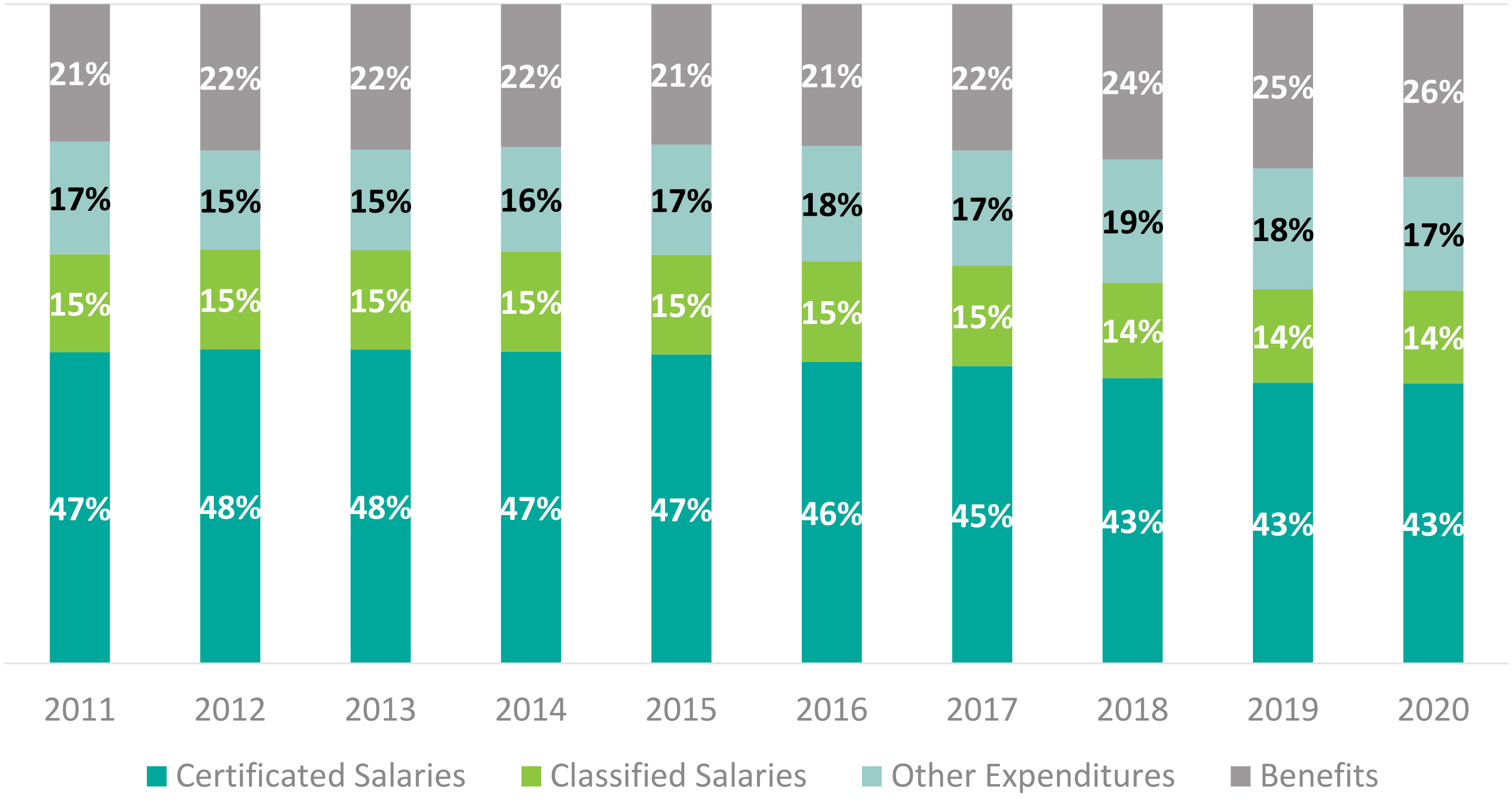
Certificated salaries as a proportion of the district budget are shrinking.



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Certificated salaries are shrinking, continued.

- From 2010-11 to 2019-20 (projected), pension and other benefit costs will increase by 5 percentage points as a share of an average district's budget.
- Certificated salaries are expected to drop by 5 percentage points.
- This trend is more pronounced in declining enrollment school districts.
- Average teacher salaries increased by approximately 17 percent from 2011 to 2017, from $67,900 to roughly $79,000. It is possible that the increase would be larger if not for the rapid rise in pension costs.

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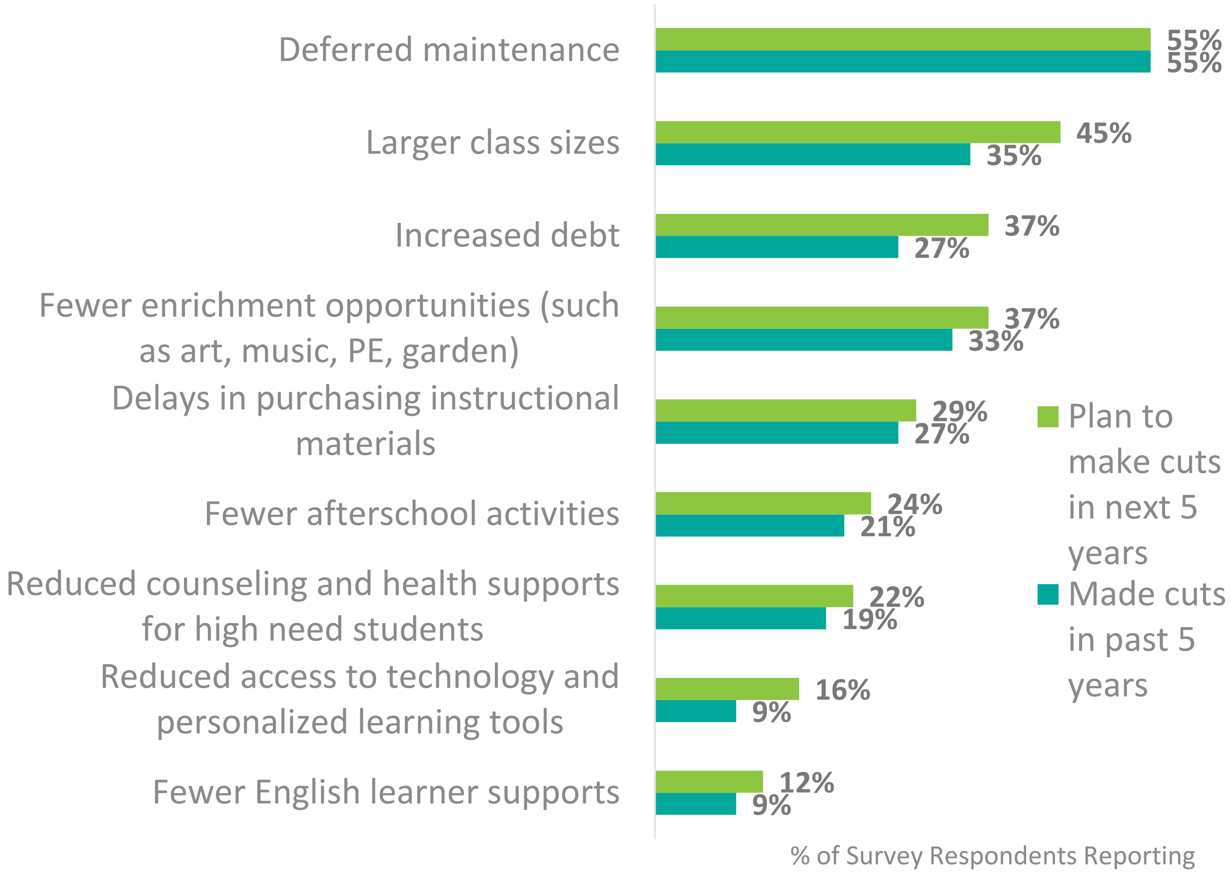
Survey respondents both already have and plan to make cuts in the future because of pension costs.



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In order to pay for pensions, districts are tapping into sources intended to serve students targeted by LCFF.

- 63% of survey respondents report that increased pension and benefit costs have impacted their ability to provide supplementary supports and services to unduplicated students.
- In 2017-18, 44% of sample districts spent more on CalSTRS and CalPERS than they received in supplemental and concentration grants.
  - In total, these districts received $3.2 billion in supplemental and concentration grants.
  - The same year, they collectively budgeted $2.1 billion in CalSTRS and CalPERS costs.

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Recommendations

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"How can we keep our promises to the past while ensuring that we do not starve our future?"

-Paul Taylor, *The Next America: Boomers, Millennials, and the Looming Generational Showdown*

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What Can Local School Districts Do to Avoid the Big Squeeze?

- **Collaborate with stakeholders to understand the Big Squeeze, make tough decisions, plan ahead, and advocate for a state-wide solution.** District leaders should work with their communities to build awareness of the Big Squeeze and the need for local and state solutions.
- **Align instructional goals and initiatives with budget realities.** Assess whether programs are producing benefits for students.
- **Only make investments that the district can sustain in good and bad times.**

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What Can the State Do to Avoid the Big Squeeze?

- **Increase state revenues.**
- **Move unfunded pension liabilities outside of Proposition 98, or increase the size of the guarantee.**
- **Consider approaches from other states.** The current system disadvantages those who do not teach for their entire career.
- **Only make promises that the state can sustain.** Identify the resources to fund promising initiatives first.

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Conclusion

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