California schools may face cuts amid skyrocketing pension costs

By Jill Tucker, San Francisco Chronicle | January 23, 2017 | Updated: January 23, 2017 7:00am

Photo: Leah Millis, The Chronicle

Above: Head custodian Adam Zendejas sweeps the cafeteria floor between groups of students during lunchtime at Stoneman Elementary School in Pittsburg. Below: A student looks over the lunch offerings being served by Monica Rocha (left), assistant manager for child nutrition, and Jenny Lopez.

Public schools around California are bracing for a crisis driven by skyrocketing worker pension costs that are expected to force districts to divert billions of dollars from classrooms into retirement accounts, education officials said.

The depth of the funding gap became clear to district leaders when they returned from the holiday break: What they contribute to the California Public Employees' Retirement System, known as CalPERS, will likely double within six years, according to state estimates.

CalPERS, a public pension fund with $300 billion in assets that is the country's largest, manages retirement benefits for 1.8 million current and former city, state and school district employees, though it does not cover teachers, who fall under a different pension system.

School district officials say that unless the situation changes, they will have to make cuts elsewhere, possibly leading to larger class sizes, stagnant worker pay, fewer counselors and librarians, and less art and music in schools. Insolvency and state takeover are not out of the question for some districts.

"It's like an OMG moment of, 'How are we going to cover this?'" said Dennis Meyers, assistant executive director of governmental relations at the California School Boards Association. "It's scaring districts right now. A lot are questioning whether they can stay afloat."

California's pension problem isn't new. For years, economists and policymakers have warned that the state's pension systems won't have enough money to fulfill promises to millions of current and retired workers. But next year, officials said, rising pension costs will eat up more than a third of proposed increases to the state education budget.

There is a predicted shortfall among all state retirement accounts of at least $230 billion based on what's owed to current and future retirees. The pension funds, including CalPERS, haven't made as much money from the stock market and other investments as they had hoped.

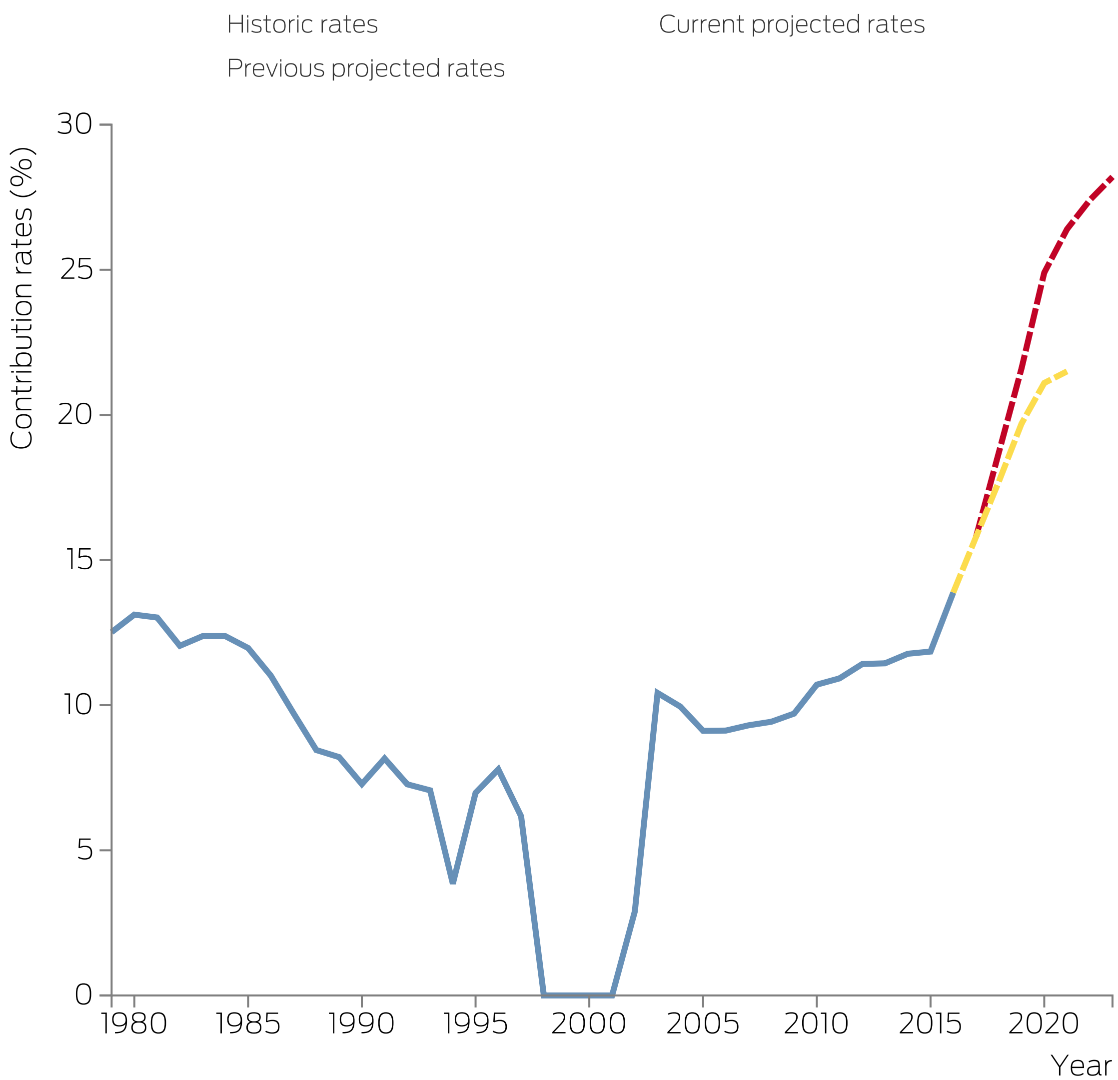
That means school districts — like other public agencies — have had to backfill pension funds. Workers have also been forced to pay more. But it hasn't been enough.

CalPERS officials had hoped to gain a 7.5 percent annual return on investments, but they didn't come close in either of the last two years. So in December, the CalPERS board voted to reduce the expected return rate to 7 percent by 2019-20 — which will translate to billions of dollars in additional payments.

Rising pension costs

The amount school districts are required to contribute to employee pension funds, equal to a percentage of total payroll, has fluctuated over the years, reaching a record high this year. Yet with the return on investments lower than expected, schools will have to pay even more in the future to ensure the CalPERS fund has enough money to pay retirees what they've been promised.

Hover over the chart to see the rates each year.



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Source: CalPERS

"This was a very difficult decision to make, but it is an important step to ensure the long-term sustainability of the fund," said Rob Feckner, president of the CalPERS board. He said the board was committed to a “phased approach” that would allow agencies to deal with wounded budgets.

Currently, districts pay the equivalent of 13.88 percent of payroll for CalPERS employees into the pension fund — already the highest-ever rate. For Oakland, that’s about $14 million this year. But the payroll rate will jump to 28.2 percent over the next six years.

“There is still a lot of speculation at this point, but this would likely create a significant increase in expenditures for school districts,” said Raul Parungao, associate superintendent for the Fremont Unified School District. “The resulting impact to budgets will require very careful planning in the immediate future.”

Yet the state’s education budget has increased significantly over the last several years, with a projected $2 billion increase next year to $73.5 billion — a big jump from the $47.3 billion allocated to schools at the height of the recession in 2011, said H.D. Palmer, deputy director of the California Department of Finance.

School districts, as employers, are responsible for workers’ retirement plans, he said.

“This is an effort to make a more solvent and sustainable retirement system for public employees over the long haul,” Palmer said. “These increases are not going to be immediate, they’re going to be phased in.”

Photo: Leah Millis, The Chronicle

IMAGE 1 OF 7
Monica Rocha, assistant manager for child nutrition (left) and Jenny Lopez, a certified nursing assistant, serve lunch in the cafeteria at Stoneman Elementary School in Pittsburg.

In Pittsburg Unified, district officials are deeply concerned about the mounting burden, while arguing the responsibility to cover failed investments should not fall on students.

“Why is it the school districts are having to pay for the inability of CalPERS to make money?” asked Enrique Palacios, the deputy superintendent and chief business officer. “You tell me what business in the state of California contributes that level of funding for retirement benefits. No one.”

Pittsburg expects to pay about $2.2 million of its $100 million budget this year into CalPERS. Doubling the cost will hit hard, Palacios said, requiring districts to pull money from academic programs and limit staff raises.

“Who gets the black eye in the public opinion? The local agency. Not the state,” Palacios said. While the state has increased education funding over the last few years, he said, “The financial impact to districts will compromise all the education reforms that Jerry Brown has been trying to do. The state needs to step into this.”

San Francisco Unified is among a handful of districts unaffected by the CalPERS changes because its employee pensions are managed by the city.

Still, the district is facing rising costs. The pension system that serves California teachers has required districts to pay more in recent years, and is expected to follow CalPERS with additional increases.

Photo: Leah Millis, The Chronicle

Mechanic assistant Alex Dumay (left) and mechanic Ed Meindersee repair a maintenance truck for the Pittsburg schools. The district will be hit hard if it has to pay more into CalPERS.

The funding crisis may fuel calls to cut public retirement packages. But while some retirees at the top end of the pay scale make six-figure pensions, the average CalPERS beneficiary gets $1,438 per month in retirement.

“Are teachers and classified employee pensions too large? Of course not,” said Bill Sokol, a labor studies lecturer at San Francisco State University. “If the amount you’re setting aside for a really inadequate pension is too great, then you’re not collecting enough money for education.”

Gov. Brown’s state budget proposal, released this week, includes about $2 billion more for schools, but increases in CalPERS and the California State Teachers’ Retirement System costs alone will equal more than $723 million, according to the California School Boards Association.

Moreover, the governor cautioned that the state could be in for a rough financial ride in

MORE BY JILL TUCKER

coming years, with the possibility of reduced federal funding and an economic downturn. That could mean less state money for schools despite the surging pension costs.

District officials in Oakland said rising pension costs could kill raises for teachers and other district workers. A clause in the current labor contract requires a percentage of additional state funding to go to employee compensation. But pension payments would come first.

“Whatever amount remains after the increase goes to salary,” said Vernon Hal, senior business officer. “It remains to be seen whether there will be leftover funds dedicated purely to salary increases.”

Hal said he was buoyed, though, by the knowledge that the pension crisis is shared by school districts across the state. That’s a lot of loud, angry voices.

“It we don’t get the money to pay for that,” he said, “we are not alone.”

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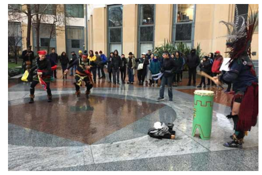
Education Reporter



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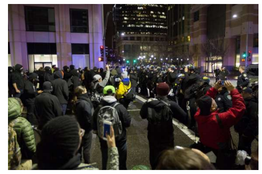
Anti-Trump protests wind down in Oakland amid heavy police



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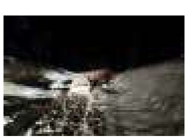
Bill would require teaching of California students about Russian



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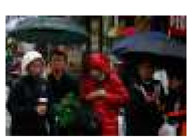

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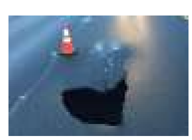
Rain causes flooding, closes roads, topples trees around Bay Area



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Sinkhole closes one lane of Hwy. 13 in Oakland