## *Position of the CalSTRS Funding Coalition*

In its previous session, the Legislature passed, and Governor Jerry Brown signed Assembly Bill 1469 (Chapter 47, Statutes of 2014), a plan to fully fund the California State Teachers' Retirement System (CalSTRS) over 32 years. While we were encouraged to see the issue of long-term CalSTRS funding being addressed by this three-prong approach of increasing contributions from the state, employees, and school districts, the rate increases to fully fund educators' retirements were never discussed when the Local Control Funding Formula (LCFF) was being developed. The CalSTRS rate increases, when fully implemented, will result in local educational agency (LEA) CalSTRS costs that are well over double what they are today. Our concern is that these costs will significantly impair the ability of LEAs throughout the state to implement the goals of the LCFF as intended by the state and as expected by local communities.

This is not an issue of "win" or "lose" under the LCFF; this is an issue for all districts seeking to improve services for their students. For the average unified district, CalSTRS costs will increase from 3.8% to nearly 9% of the district's budget over seven years, all of which would be absorbed into the LCFF under the current structure. As retirement benefit costs outpace LCFF base grant increases, LEAs will have little alternative but to cut or reduce the planned growth in programs for all students to pay for the promised retirement benefits of their employees.

While a stated goal of the LCFF is to restore base funding to the 2007-08 levels adjusted for inflation—funding levels widely believed to be less than adequate—the current LCFF funding trajectory will be *even less* sufficient with retirement costs doubling over the implementation of the LCFF. In other words, it will take a higher level of funding, and likely a longer time period, to reach the 2007-08 purchasing power level.

To be clear, we believe that executing a plan to address a long-standing need to provide a long-term stable funding mechanism for CalSTRS is vitally important to California and agree that all three parties—the state, the employer, and the employee—should be responsible for increased contributions to fund the system. And we applaud the fact that a portion of the funding is being provided by the state outside of Proposition 98 to help support the benefit structure it has created.

We believe, however, that by increasing the contributions required of the employers without providing a dedicated funding source, the state is placing LEAs in a squeeze that can only result in a reduction in services to students while expectations for those services are increasing. While the burden on districts is high, we are not asking for employers to pay less toward fully funding CalSTRS, nor are we suggesting the state pay for this cost increase outside the Proposition 98 Guarantee. Rather, we are seeking a different funding method to deal with the extraordinary cost to bring security to the retirements of school employees and to bring transparency to the LCFF.

We believe there is a better way to address these cost increases before they negatively affect the important reforms that are underway within the LCFF framework. An appropriation within Proposition 98 that would be set aside to address the increases in CalSTRS employer contribution costs could ensure that LEAs are provided a dedicated fund source for this required expenditure that will grow at a predictable rate for all districts and alleviate the need for LEAs to disrupt the existing LCFF funds to pay retirement costs.

The key to this proposal is taking the annual cost increase in CalSTRS “off the top” of Proposition 98 before determining the amount to be provided pursuant to the LCFF. The dollars would continue to come from within the Proposition 98 guarantee, but progress toward the restoration of purchasing power through the LCFF would be more accurately stated.

The requirement of schools to fund these increased contributions within the LCFF undermines the goals and the promise of increased services for students in California. Addressing this important funding issue up front will keep the goals and objectives of the LCFF intact, and is essential to ensuring students are served as envisioned.

***—The CalSTRS Funding Coalition Board***
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