

BLUE CIVIL WAR

California Pension Meltdown Hits Schools Hard

We noted earlier this month that the California state pension fund's decision to reduce its expected rate of return would force much larger contributions from the state and local governments, reducing the amount of money available for public investments. The situation is especially dire in the state's public schools, which will need to drastically cut spending on staff and facilities and educational programs to pay mounting pension bills for retirees. *The San Francisco Chronicle* reports:

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. [...]

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.

Needless to say, it is the children in the poorest school districts who will be most affected by the coming cuts in California's educational budget. This sets up a potentially disruptive conflict between two key Democratic constituencies: Lower income people who depend on government services, and the public sector unions that provide those services. Parents of students at low-performing schools will rightly protest against funding reductions, but teacher unions will not accept any reforms to the overly-generous and poorly-managed public pension system.

The fiscal vise is just starting to tighten in California. CalPERS has reduced its expected rate of return by an eighth of a percent, but is still operating under highly unrealistic assumptions. According to an estimate from Stanford's pension tracker, the state's public employee pension shortfall exceeds a trillion dollars. And as Catherine Rampell points out, several economic policies coming out of a Republican-controlled Washington are likely to further worsen the fiscal conditions of blue states. As the bills

start to come due, keep an eye on whether and how the intra-Democratic fight over scarce resources shakes up politics in the Golden State.

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