



May 13, 2014 - Second Message

In addition to the community college-specific items discussed in my e-mail earlier today, the summary of the May Revise discussed a plan to make the California State Teachers Retirement System actuarially funded over the next 30 years. This is different from the Governor's January Budget, which proposed tackling STRS underfunding in 2015-16.

We have now obtained details of the proposal, which identifies an unfunded STRS liability of \$74 billion. The Governor proposes **raising combined contributions from 19.3% to 35.7%** of payroll.

The plan would share the responsibility of the unfunded liability by the three partners that currently fund STRS--the state, education employers, and the employee members. Under the proposal, all would share some of the pain of the STRS solution. CalPERS members are not affected by this proposal, as CalPERS has been adjusting rates upward on employers in recent years.

Here is the proposed solution:

- Address the "state share" as \$20 billion, by increasing the state's contribution from 3% to 6.3%.
- Address the "employer share" as \$42 billion--including those of community college districts--by increasing the employer rate **from 8.25% to 9.50% in 2014-15**, and by an additional 1.6% increase each year between 2015-16 and 2021-22 (to 19.1%).
- Address the "employee share" as \$12 billion, increasing the employee rate from **8.0% to 9.2% in 2015-16**, and to 10.25% each year after. Newer and future employees subject to the pension reform measures of 2013 (Public Employees Pension Reform Act, or PEPRA) would pay an employee contribution of 9.21%.

Obviously, we are deeply concerned that the proposal would largely (or completely) wipe out the 0.85% cost-of-living adjustment on apportionments included in the budget. Further, categorical programs with CalSTRS employees (such as EOPS, DSPS, and the Student Success and Support Act/Matriculation) are not proposed to have a COLA, and thus will have to cut programs and services to students to pay the additional benefit costs.

We agree that it is time to address the longstanding underfunding of STRS, although are concerned that the implementation might be too fast, particularly considering that community colleges still have a 16% deficit from missed COLAs during the recession. We may need to better consider our program increases and pace of enrollment growth, unless additional resources can be found to address this new state mandate on community college districts.

Stay tuned as we learn more about this proposal and the impacts on our community colleges.

Sincerely,

A handwritten signature in cursive script, appearing to read "Scott Lay".

Scott Lay
President and Chief Executive Officer, The League