The Canary in the Gold Mine: The Implications of Marin's Rising Pension Costs and Tax Revolt for Increasing Education Funding

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November 2019

PACE
Policy Analysis for California Education

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Acknowledgements

Thank you to the Laura and John Arnold Foundation, Ann and Andy Mathieson, and Ken Broad, whose generous support has made this report possible. We wish to thank district and county leaders and community advocates who participated in this project, as well as the partners and experts who shared their expertise and perspectives, including the Marin County Office of Education and Carrie Hahnel. We also thank Rebecca Eiseman for providing research support throughout this project and Allison Carter for her contributions to this report. This report, like all PACE publications, has been thoroughly reviewed for factual accuracy and research integrity, and we thank this publication's reviewers.

Executive Summary

Voters in Marin County have long been willing to pass parcel taxes to fund their schools. In 2016, taxes faced unprecedented opposition from local activists; taxes in Kentfield and Mill Valley were defeated or passed by previously unheard-of narrow margins, respectively.

What changed? This case study uses district financial and demographic data as well as interviews and focus groups with advocates and education leaders to answer this question. It was clear that:

- The current financial situation is not sustainable. Because of rising pension costs, other rising costs, and factors such as declining enrollment, Marin districts are making cuts to services or plan to do so in the near future.
- There is a tension between teacher compensation and recruitment. Despite their financial constraints, districts feel immense pressure to increase teacher salaries in order to recruit and retain teachers in high-cost Marin County. Increasing pension costs are diminishing the flexibility afforded by the Local Control Funding Formula (LCFF) to fund local programs and priorities.
- There is strong support for teachers and programs for students, but even in Marin County, where the community is engaged and well-informed, there is limited public awareness of district flexibility to respond to the impacts of rising pension costs.
- Due to growing concern that dollars are not reaching schools, but instead being used to fund pensions, parcel taxes have faced increasing opposition in Marin County.

This case study also offers lessons for local and state education leaders, including:

- **Districts facing real and unavoidable cost increases simply need more funding.** Addressing student needs simply costs more than California has spent for decades. If state and local leaders want to fully support student success and stop seeing districts enter financial distress, they will need to find additional revenues.
- **Education leaders must continue to build awareness of the impact of rising pension costs, and work together to identify solutions.** Pension costs have become a contentious issue in Marin County and are likely to become contentious in other parts of the state. At the same time, benefits (including pensions) and salaries are key to retaining teachers.
- **Given the increasing vulnerability of local taxation, state and local advocates should prioritize a statewide funding solution.** State and local leaders should heed the lessons of increasing anti-tax sentiment in famously progressive Marin. Statewide and local leaders must prioritize the development of a statewide education funding solution that does not increase reliance on local taxation.

Introduction

Marin County is world-renowned for its natural beauty, artisanal food, and proximity to San Francisco. Locally, it's also known for its long history of progressive politics. Many of California's wealthiest Democratic donors live in Marin, and until recently current California Governor Gavin Newsom called it home.

Marin's generally affluent, liberal voters have a history of being willing to tax themselves to support their schools and offset California's chronic underfunding of public education. Every Marin district that serves more than a thousand students has passed at least one "parcel tax."[1] In Marin County, these taxes provide millions in additional funding for local schools. These taxes have helped many Marin County school districts provide a level of resources rarely seen in other parts of the state.

In 2016, something shifted. Voters in upscale Kentfield rejected the renewal of a previously popular school parcel tax, which had most recently passed with 72 percent of the vote in 2008. In nearby Mill Valley, a parcel tax that made up approximately 20 percent of the district's budget passed by fewer than 25 votes, even though it had passed with 74 percent of the vote in 2008.[2]

The electorate hadn't shifted. In the same election, Marin voters decisively rejected both Donald Trump (77 percent of voters voted for Hillary Clinton) and plastic bags (74 percent of voters voted to ban plastic bags).[3] The students hadn't changed. Both Kentfield School District and Mill Valley School District have continued to serve predominately wealthy students from their own communities and their parcel taxes ensured small classes and contributed to high property values. So why did public support for school funding shift?

An answer to this question doesn't lie in Marin but rather a few hundred miles away in the State Capitol in Sacramento. In the years after the 2008 Great Recession, the managers at California State Teachers' Retirement System (CalSTRS), the California teacher pension system, and California Public Employees' Retirement System (CalPERS), the California public employee retirement system, recognized that they had a multi-billion-dollar problem. Unless something changed, they would eventually run out of the money necessary to fund the pensions of millions of retirees. In order to make up the shortfall, legislators passed a number of reforms, including AB 1469, which addressed

[1] In California, voters may choose to tax their communities via parcel taxes. Parcel taxes can fund schools or other government services, such as libraries or water districts. While there are rare exceptions, parcel taxes are typically structured as flat taxes on each parcel of property in the community. They require the support of two thirds of voters to pass. More information here: https://ed100.org/lessons/parceltax

[2] See https://ballotpedia.org/Parcel_tax_elections_in_California

[3] See https://www.marincounty.org/depts/rv/election-info/past-elections/page-data/tabs-collection/2016/nov-8/results

the teacher pension fund's rising unfunded liabilities. This bill required school districts to increase their annual contributions to the state teacher pension system.[4] In 2013, districts were mandated to set aside 8.25 percent of teacher salaries for the pension fund; under AB 1469, by 2020-21 that number would grow to 19.1 percent.[5] Districts were not paying more in order to give more generous benefits to retirees. In fact, new teachers have less generous pension benefits than teachers hired before these reforms were passed. School districts, current employees, and the state were all asked to contribute more to the fund in order to pay down a large and growing unfunded liability.

As this was happening, the economic recovery along with the passage of Propositions 30 and 50 pumped billions of additional dollars into the education system. Through the passage of the Local Control Funding Formula (LCFF), a portion of these funds were distributed to districts based on their numbers of low-income students, English learners, and foster youth. Despite the revenue influx, many districts continued to experience financial distress. Advocates around the state began to worry that a substantial portion of education funding wasn't actually reaching the classroom but instead being used to shore up district budgets and the costs of the state's pension system.

This message had particular resonance among the well-educated electorate in Marin County, including the many finance professionals who live in the area and understand the complexities of the public sector pension system and its funding mechanisms. These residents coalesced into informal networks and a formal advocacy group known as Coalition of Sensible Taxpayers (CO$T) to pressure school districts to rethink their spending and funding. Advocates had become concerned that some local leaders were choosing to increase taxes rather than grapple with necessary fiscal reforms.

This report explores the dynamic interaction of progressive politics, pension costs, and taxation for education in Marin County and how school districts in financial distress are caught in the middle. This report is titled "A Canary in the Gold Mine" for two reasons. The first is that, due to its well-informed and financially savvy population, Marin community members and education leaders became concerned about the effects of rising pension costs before much of the rest of California. As other communities begin to grapple with the impact of increasing pension costs on public services, including education, Marin may be a harbinger of political dynamics around pension costs and education funding for rest of the state. This may prove especially true as more districts consider passing parcel taxes to raise revenue. The second is the region's unusual concentration of wealth. If the highly progressive residents of Marin County have become less willing to financially support their local school districts, what does this mean for less wealthy regions of California?

[4] This bill also required teachers and the state of California to increase contributions. For more about these changes and how this system works, see https://edsource.org/2019/school-and-pension-costs-in-california-what-can-be-done/610472.

[5] For more information, see https://gettingdowntofacts.com/publications/pensions-and-california-public-schools-0 and https://www.pivotlearning.org/bigsqueeze/.

About this Report

With this report, we aim to build deeper understanding among policymakers, advocates, and state and local decisionmakers about the funding challenges felt by local school districts, and how these challenges are affecting students, educators, and the broader community. Ample research has demonstrated that California education needs more money (Levin et al., 2018, Imazeki, 2018), even as district costs are rising (Willis, 2018, Koedel, 2018). Recent labor actions and tax reform proposals further demonstrate that educators, community members, and other stakeholders feel the need for more investment in our educational system. This report sheds light on how these local pressures are playing out in Marin County and is meant to provide one illustrative case study[6] and share insights and lessons learned that may be instructive to state and local leaders as they seek to improve education funding and quality in California.

Methods for this Case Study

To help us understand the Marin County story, we analyze ten years of district budget data for eleven target school districts. This analysis includes all Marin County school districts with more than 500 students during the 2017-18 school year, which combine to account for about 95 percent of total public K-12 enrollment in Marin County.[7] We also reviewed publicly available demographic and financial data for these target school districts, including SACS files and J-90s.[8]

[6] This report is related to a larger project that investigates how rising costs are squeezing district budgets and affecting opportunities for students. Pivot Learning's first report, *The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity*, released in April 2019, found that in order to offset growing pension costs, California school districts are taking such actions as increasing class sizes; cutting enrichment opportunities like art, music, and after-school activities; and reducing counseling and health supports that especially benefit high-need student groups such as English Learners, low-income students and foster youth.

[7] With one exception: we excluded Sausalito Marin City, which had a total enrollment in 2017-18 of just over 500 students, from the sample at the recommendation of county administrators. Sausalito is a two-school district with one charter school and one traditional public school, which makes their finances unusual.

[8] We performed modest pre-analysis data cleaning following the procedures outlined in the technical appendix to *The Big Squeeze.* The most notable data-cleaning issue is that districts in California do not uniformly report "on-behalf" contributions by the State of California to CalSTRS in their projected budgets. The technical appendix to *The Big Squeeze* documents our methodology for isolating districts' contributions to CalSTRS in light of this issue.

In addition, our team conducted 11 interviews and 3 focus groups. All districts in Marin with more than 350 students were invited to participate in interviews and focus groups. Participants included superintendents, chief business officers, county administrators, advocates, a pension program administrator, and a principal. In total, we spoke with 35 individuals representing the following districts, agencies, and organizations:[9]

- CalPERS
- Coalition of Sensible Taxpayers (CO$T)
- Kentfield School District
- Larkspur-Corte Madera School District
- Marin County Office of Education
- Mill Valley School District
- Miller Creek School District (formerly Dixie School District)
- Novato Unified School District
- Office of Assembly member Marc Levine
- Office of Senator Mike McGuire
- Reed Union School District
- Ross School District
- San Rafael City Schools
- Shoreline Unified School District
- Tamalpais Union High School District

Context

Marin County and Education

Marin County boasts some of California's most famous landmarks, including the Marin Headlands, Mount Tamalpais, and the Muir Woods National Monument, which annually hosts over a million visitors (Forgione, 2017). Marin County is whiter, older, and wealthier than the rest of California; 70 percent of Marin residents are white compared to 37 percent in the rest of the state. The median resident is aged 47 versus 37 for the rest of California and lives in a household with an income of 114,000 dollars (42,000 dollars more than the median for California) (California, n.d.; Marin County, CA, n.d.). Marin has also been ranked the healthiest county in California for nine out of the last ten years (Schena, 2019; Robert Wood Johnson Foundation, n.d.).

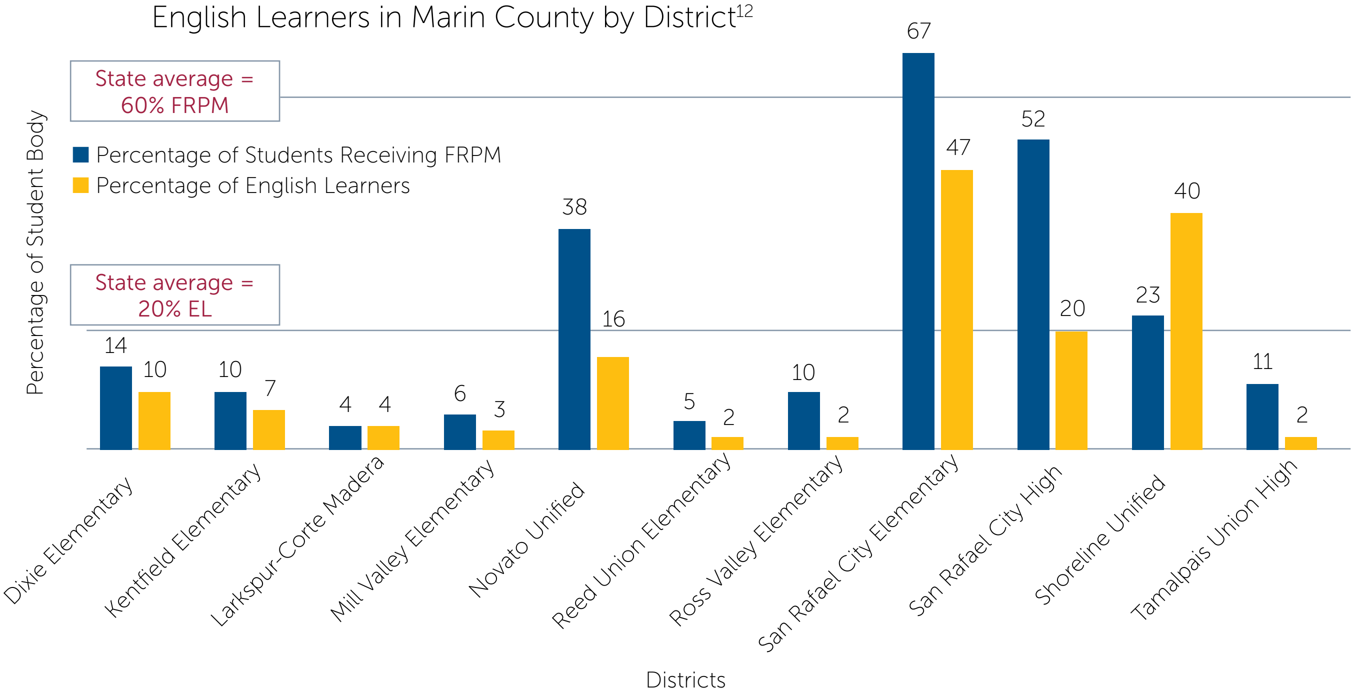
These statistics hide deep race and class inequalities. Marin has been ranked the most racially inequitable county in California based on housing, economic opportunity,

[9] We tried to schedule interviews with local labor leaders, but were not able to do so.

justice, and education differences (Halstead, 2017; Race Counts, 2017). Marin has achievement gaps that far exceed state averages. Countywide, 30 percent of third graders from low-income families are meeting or exceeding standards in English and Language Arts compared to 76 percent of their higher-income peers.[10] In August 2019, the Sausalito Marin City School District agreed to desegregate at the mandate of the state (Meckler & Strauss, 2019).

Marin is home to a number of small school districts that formed when the region was predominately rural. While the state provided financial incentives for small, rural districts to merge in the 1960s, many of Marin's districts declined to do so. Today, the county is home to eighteen districts, six of which serve fewer than 500 students. The largest district is Novato Unified (student population 7,863) and the smallest district is a one-room schoolhouse with an enrollment of seven students during the 2017-18 school year.[11] As Figure 1 shows, many of these districts serve students who are predominately white and wealthy, with populations of low-income students and English Learners that are far below state averages.

Figure 1. Proportions of Students Receiving Free and Reduced Price Meals (FRPM) and English Learners in Marin County by District[12]



Source: "Free and Reduced-Price Meals" and "English Learners", www.Ed-Data.org

[10] "Smarter Balanced Assessment Test Results for Marin," California Department of Education https://caaspp.cde.ca.gov/sb2018/ViewReport?ps=true&lstTestYear=2018&lstTestType=B&lstGroup=1&lstCounty=21&lstDistrict=00000&lstSchool=0000000. Compare this to the state as a whole, which has a gap of thirty-two percentage points between these two student groups.

[11] "Census Day Enrollment," www.Ed-Data.org.

[12] Chart includes only districts included in financial analysis.

Marin County School District Finances

In the 2017-18 school year, ten of the eighteen districts in Marin County were classified as basic aid or community-funded districts, because they have significant local wealth (four of these basic aid districts are included in the financial analysis).[13,14] Fifteen of Marin's eighteen districts, including all districts that serve over a thousand students, raise money locally through the passage of parcel taxes. For many of these districts, parcel taxes make up a significant part of their annual revenues; ten districts raise ten percent or more of their annual general fund revenues via parcel taxes. Mill Valley Elementary and Kentfield Elementary each raise a whopping 24 percent, respectively, of their annual fund revenues via parcel taxes.[15]

The number of parcel taxes in Marin County and district dependence on this funding source is unprecedented in California; only approximately 10 percent of students in the state attend districts that receive parcel tax revenues (Ed100, 2017). Notably, parcel taxes are essentially the only way for communities in California to agree to tax themselves to raise ongoing funds for schools, since Proposition 13 stripped school districts of the power to levy other taxes. Historically, Marin communities have been similarly supportive of school construction bonds. In addition, during interviews and focus groups, Marin residents shared that local Parent Teacher Associations, school foundations, and other school-based fundraising efforts annually raise substantial revenue.

Figure 2 shows that benefit costs are rising in Marin's school districts while certificated salaries are decreasing as a percent of overall district budgets, which is in line with trends in the state as a whole. Our analysis shows that in 2011-12, certificated salaries (e.g., salaries for teachers) made up 48 percent of Marin County district budget expenditures. However, based on districts' projected budgets, this share is expected to decrease by three percentage points by 2020-21, to 45 percent. At the same time, the share of district budgets devoted to benefit costs—of which the main cost items are for health care and pensions—is expected to increase seven percentage points, from 18 percent to 25 percent. This increase in Marin County is similar to but somewhat larger than the rest of the state; statewide, in *The Big Squeeze* we estimated that the portion of

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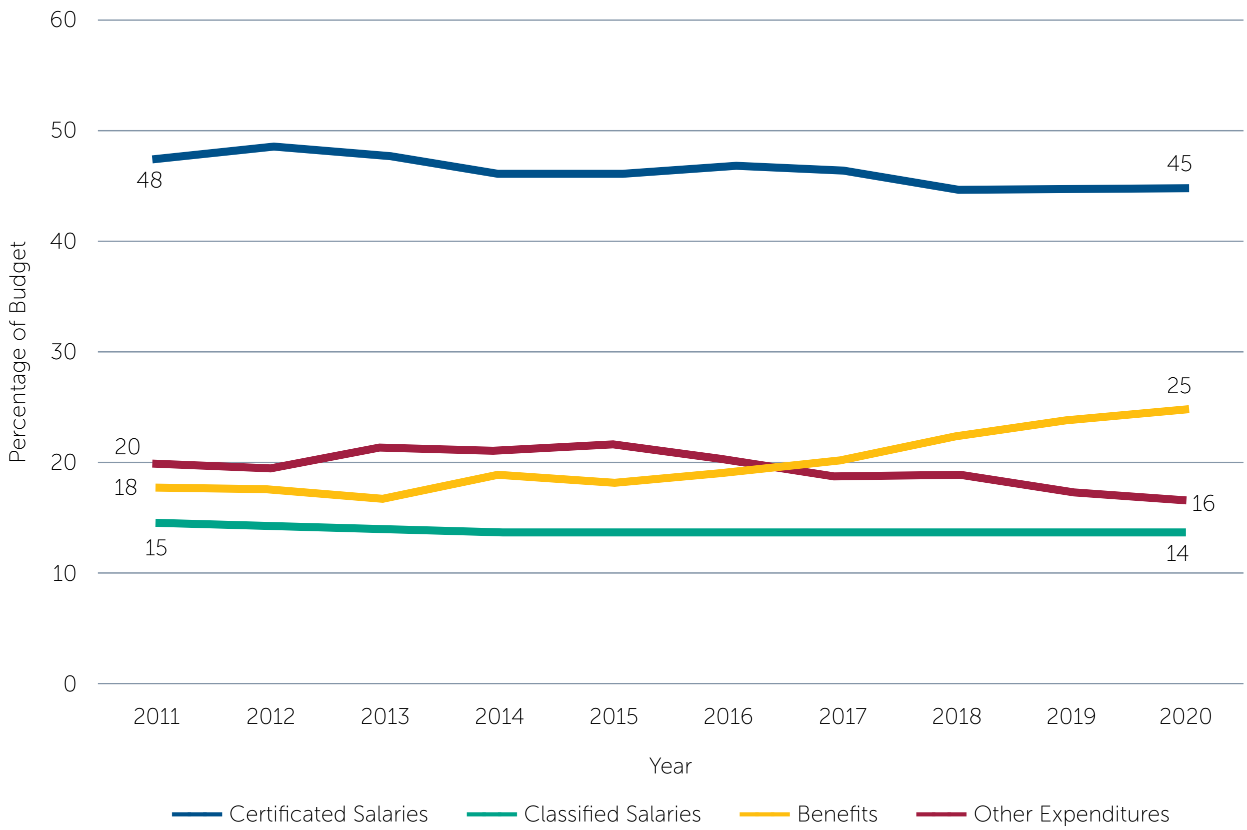
[13] See ""Average Daily Attendance," https://www.cde.ca.gov/fg/aa/pa/ada75701718.asp.

[14] In California, the Local Control Funding Formula is used to calculate the amount of money that a district will need to spend to serve all of its students. In most districts, the community does not raise enough money in local property taxes to hit this target, and the state provides the rest of the funding to fill the gap and meet the target. In "basic aid" or "community-funded" districts, the community raises enough money to hit or exceed this target. These districts are allowed to keep the extra revenue, and it typically raises the districts' per pupil spending. For more, see: https://www.ppic.org/content/pubs/report/R_913MWR.pdf.

[15] "General Fund Expenditures by Object Code, 2017-18," www.Ed-Data.org.

districts' budgets devoted to benefits is projected to rise over a ten-year timespan by just five percentage points.[16,17]

Figure 2. Spending by Marin County Districts Over Time on Salaries and Benefits as a Share of Overall Budgets



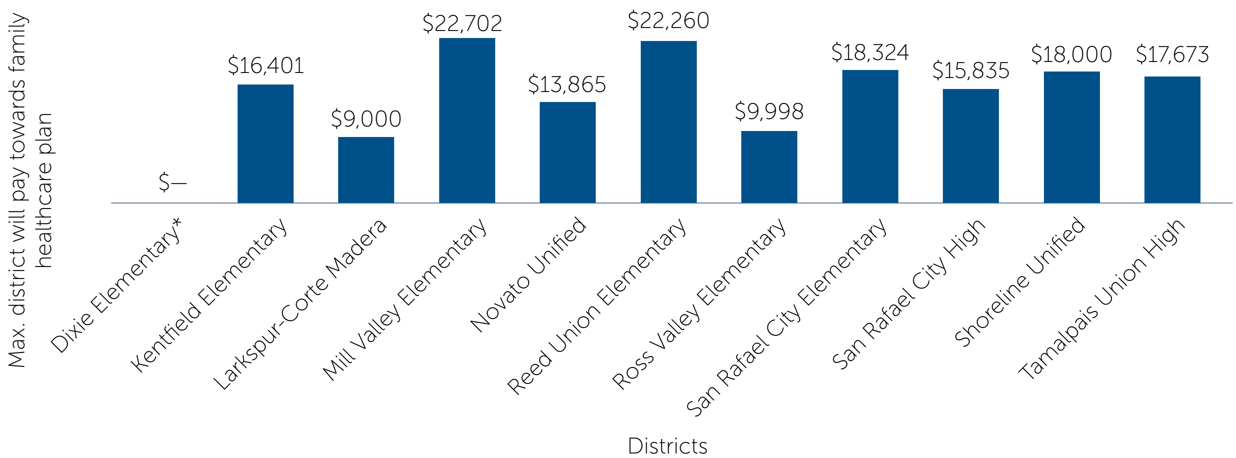
As noted above, pension cost increases during this time period explain a substantial fraction of the benefit-cost increase. In 2011-12, district contributions to CalSTRS and CalPERS accounted for about 5.5 percent of Marin district expenditures; by 2018-19, the most recent year for which complete data are available, the CalSTRS and CalPERS shares increased by 80 percent to account for nearly 10 percent of expenditures. This level of increase is well within expectations given rising required contribution rates to both pension plans.

[16] The budget share values for Marin County reported in Figure 2 are enrollment-weighted averages of the Marin County school districts in our sample. The enrollment weighting is to prevent some of the very small Marin County districts from disproportionally influencing the results.

[17] Due to data availability, the statewide "Big Squeeze" report includes budget data from 2010-11 to 2019-20. This report includes data from 2011-12 to 2020-21.

Turning to the other major cost item that many districts in California are grappling with—healthcare—Figure 3 shows district costs for per-teacher health and welfare benefits in Marin County. While there is some variation across Marin districts, Marin County as a whole is not a notable outlier in the state in terms of health and welfare expenditures.[18]

Figure 3. Per-Teacher Maximum Costs of Family Health and Welfare Benefits in Marin County by District[19]



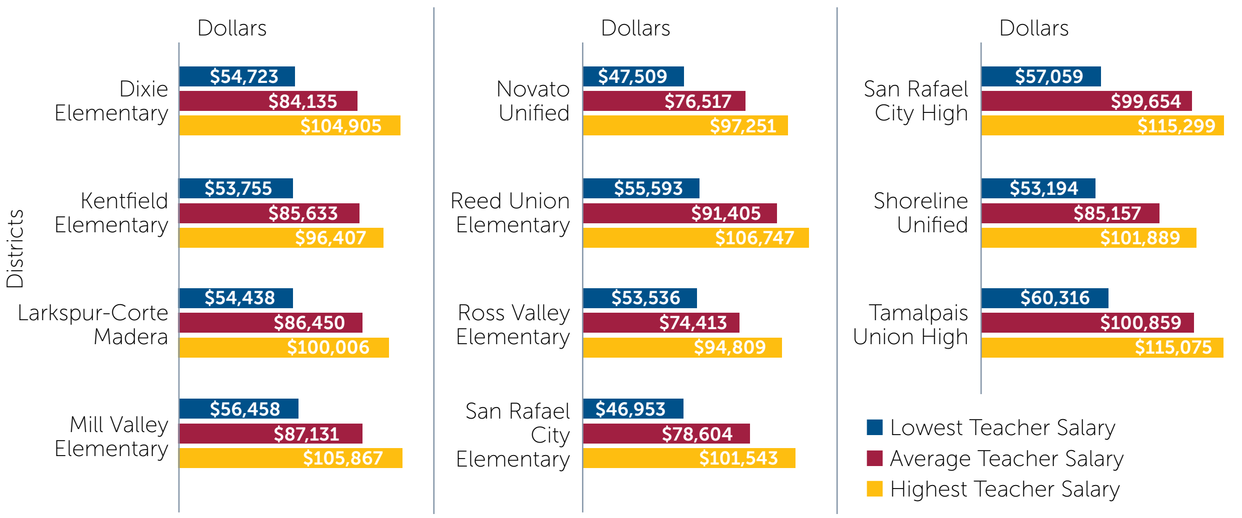
Note: *Data not available.
Source: J-90 2017-18, California Department of Education

When it comes to teacher salaries, some districts in Marin County pay their teachers much higher salaries than others. For example, a teacher could earn as much as $94,809 in Ross Valley as compared to $115,299 in San Rafael City High. In many cases, districts that raise more money locally are able to pay higher salaries. These salary differences impact district contributions to CalSTRS, because the required contribution is set in statute as a percentage of salaries. Thus, districts that pay more in salaries must make larger CalSTRS contributions, all else equal.

[18] For more information on outlying districts, please see https://edpolicyinca.org/publications/challenges-employee-and-retiree-health-benefit-costs-california-districts.

[19] Chart includes only districts included in financial analysis.

Figure 4. Teacher Salaries in Marin County by District[20]



Source: J-90 2017-18, California Department of Education

At the same time that districts are contributing more to pensions due to large unfunded liabilities, Marin County districts, like districts across the state, are also feeling other financial pressures, including declining enrollment, healthcare costs, and special education costs.[21]

Findings

Four key trends emerged from our analyses.

- The current financial situation is not sustainable. Because of rising pension costs, other rising costs, and factors such as declining enrollment, Marin districts are making cuts to services or plan to do so in the near future.
- There is a tension between teacher compensation and recruitment. Despite their financial constraints, districts feel immense pressure to increase teacher salaries in order to recruit and retain teachers in high-cost Marin County. Increasing pension costs are diminishing the flexibility afforded by LCFF to fund local programs and priorities.
- There is strong support for teachers and programs for students, but even in Marin County, where the community is engaged and well-informed, there is limited public awareness of district flexibility to respond to the impacts of rising pension costs.
- Due to a growing concern that dollars are not reaching schools, but instead being used to fund pensions, parcel taxes have faced increasing opposition in Marin County.

[20] Chart includes only districts included in financial analysis.

[21] For more information, see https://gettingdowntofacts.com/publications/revisiting-finance-and-governance-issues-special-education-0 and https://www.pivotlearning.org/bigsqueeze/.

Finding #1: The current financial situation is not sustainable. Because of rising pension costs, other rising costs, and factors such as declining enrollment, Marin districts are making cuts to services or plan to do so in the near future.

Countywide, districts report that fixed costs – including pensions – are outpacing revenues. One county administrator shared, "the consensus has been that any district with a balanced budget today has to cut next year in order to maintain that. We've had some CBOs do the calculations; what will happen if we do nothing? The natural total percentage increase in the budget is somewhere from five to six percent each year."

What else is contributing to these rising costs? District leaders cited health care, facilities insurance, special education, and staff salaries as costs that are increasing countywide. A handful of districts in Marin are facing declining enrollment, as fewer families with young children can afford the cost of living in the county. As fewer children enroll in school, districts struggle to keep up with fixed costs.[22] Pension contribution rates are one of a handful of costs that are increasing countywide.

Other evidence of financial instability exists in the county. Two districts, Larkspur Corte-Madera School District and Bolinas-Stinson Union School District, received qualified budget certifications from the Marin County Office of Education (COE), which means that the COE was concerned that they may not be able to meet their fiscal obligations in one of the next three years.[23] During focus groups and interviews, other districts shared that they had been advised by the county to reduce expenses to avoid a qualified or negative budget certification.

Leaders shared that these cuts are already impacting students. As one county administrator explained, "the district and the COE both have a requirement to prevent qualified or negative certifications. The fact of the matter is that districts continue to have to cut back in areas that they would not be cutting back in [if not for this squeeze], and that affects students." Even districts in relatively healthy financial situations report that they have increased class sizes, stopped replacing retiring staff, and limited professional development for teachers. As one administrator in a district with stable enrollment reported, "Our district has worked hard to sustain programs. The class size average has risen over the last few years. The teacher–student ratio has changed, and that's partly due to pension costs. This has not allowed us to provide interventions and supports. There are programs we'd like to put in place but can't afford because of initial costs each year due to pensions." Other administrators noted how rising costs were preventing them from fully

[22] For more information, see https://www.pivotlearning.org/bigsqueeze/ and https://www.wested.org/resources/silent-recession/.

[23] For more information, see https://gettingdowntofacts.com/publications/pensions-and-california-public-schools-0 and https://www.pivotlearning.org/bigsqueeze/.

implementing instructional and behavioral frameworks such as Multi-Tiered Systems of Support (MTSS) and providing more instructional supplies in the classroom.

A few Marin districts have taken more extreme measures that directly impact students. One district trustee reported that their district had closed a school campus, partially in response to the rising cost of pension obligations. An administrator from another district shared, "In our middle school, we have had to cut back on the number of electives that students have access to. We have a lot of English language learners, and they do well in the electives; that's the class that keeps middle school students happy. We're trying to figure out how to increase the number of electives so the students can have at least one if not two [electives]. And the estimate is one million dollars to do that. We'd love to be able to find a million dollars to be able to bring that back. That's what we used to have, every student had two electives. Now, the English language learners who are newcomers may not even have one." This has equity implications, as electives have been shown to keep students more engaged with school overall and are particularly helpful for students who are classified as English Learners (Kanno and Kangas, 2014).

Finding #2: There is a tension between teacher compensation and recruitment. Despite their financial constraints, districts feel immense pressure to increase teacher salaries in order to recruit and retain teachers in high-cost Marin County. Increasing pension costs are diminishing the flexibility afforded by LCFF to fund local programs and priorities.

When facing financial pressure, districts tend to make cuts to programs rather than reducing teacher compensation, given the need to compensate teachers fairly. Unfortunately, in high cost regions of California such as the Bay Area, teacher salaries often lag behind the cost of living. One district trustee explained, "We have a real problem here in Marin. No one can afford to live here [due to the cost of housing], so most of our teachers are commuting in. Our [starting salary] is at $60,000 a year, which is a roommate situation in the East Bay. We are not paying a sustainable wage." Throughout the interviews and focus groups, district administrators shared a desire to raise teachers' salaries. District and county leaders said that teachers did not receive raises for multiple years during the Great Recession and that current efforts to increase teacher pay aim to address this.

At the same time, district administrators shared concerns that new revenues were expected to go exclusively to teacher salaries. As one Chief Business Officer reported, "once LCFF funding came into play, that had to go to compensation, and that hasn't stopped."

Administrators also said that they often encountered labor partners' unwillingness to consider the cost of pension payments when negotiating teacher salaries, as they consider it separate from compensation through salaries. While the majority of the districts in the county seek to negotiate around total compensation-including salaries, benefits, and pension benefits-they report varying levels of success with labor partners in doing so. As one superintendent explained, "If I'm looking at it from the teacher perspective, I'm looking at the paycheck I get to take home. And what teachers would see is number one, their personal contribution towards pensions has increased. And typically, their healthcare has also increased… The average fourth grade teacher cares about the dollars that they take home to their family. So, it's this challenge where, yes, we can create these models where we could show the pension contribution and show what you get later on down the line, but when you're looking at your day-to-day, month-to-month salary, it's a hard conversation to have."

A Board Trustee from the same district observed, "Our principals are highly aware of the [pension] issue, because they work so closely with our superintendents and the board in that respect. They are very, very aware. The teachers' level of awareness varies substantially [from] sort of vague awareness that [the rising cost of pension liabilities] is a problem, to a much greater awareness that impacts how long they have to work to recuperate their investment. But we tend to get held up on that immediate negotiation rather than working together to solve this as a long-term problem."

Stakeholders have become concerned that relationships between teachers and districts have become more contentious under the fiscal strain. County and district administrators have shared this concern, and teachers have also expressed this concern when speaking with the media and offering comments at board meetings.[24]

With districts making programmatic cuts and struggling to meet teacher salary needs, it is not a surprise that some districts report that they have not felt the financial benefits of LCFF. One administrator told us, "Since 2008, we've been belt-tightening and belt-tightening. Our district doesn't pay for paper, our PTO (Parent Teacher Organization) does. We've already belt-tightened. We've turned off the lights, we've reduced waste and trash pick-up." A Chief Business Officer at another district connected this to the rising cost of pensions: "Every year when the budget is adopted, we hear from the state, 'schools are getting more and better funding.' [When instituting LCFF] the governor said, we're going to make you whole in a few years, we'll give you the same buying power. I don't think we're at that buying power. Any increases that have occurred [in funding] really goes to support this huge liability that we carry [to pay down unfunded pension costs]."

[24] For more, see https://twitter.com/KeriWorks/status/1128798215929647104 and Brenner, 2019.

Finding #3: There is strong support for teachers and programs for students, but even in Marin County, where the community is engaged and well-informed, there is limited public awareness of district flexibility to respond to the impacts of rising pension costs.

What has been the community response to these changes? Throughout interviews and focus groups, participants emphasized Marin's support of public education and teachers. Additionally, Marin's residents are aware of the fact that rising pension costs are impacting other public services. The media has regularly reported on police and fire pension costs, and residents seem to be aware of these challenges. A handful of high-profile community members have worked to raise awareness of the gap between pensions' promises and state-level funding.

However, community members are not always aware of how much control districts have over these costs or how they affect district flexibility and spending. For example, one superintendent told the story of a community member who told him that he would not vote for a local tax measure unless the district reduced teacher pensions. The superintendent had to explain that all pension decisions are made at the state level and cannot be modified by individual districts. On the other hand, awareness is growing. A Board Trustee who had been a part of parcel tax campaigns in the past shared that she felt community members were becoming more aware that this issue is created at the state level and have begun looking for statewide solutions.

Some district administrators reported that they had been conducting significant community outreach in the hopes of boosting public understanding of the issue. One Board Trustee shared that gaps in awareness are straining community and district relationships: "There's a tremendous amount of distrust between not just teachers and the board/administrative level but also with parents. Right now, they think that either we have control over the pensions within our district and that we're just being over-generous ourselves or that it's not as big of an issue." As one Board Trustee of a Basic Aid district stated:

> *There's a level of awareness [about rising pension costs], but for some reason this is a cause of a tremendous amount of cognitive dissonance. People can't see what we do or the levers that we need to pull as appropriate responses to the pension crisis, which might mean closing a school... While we have a very smart electorate [that grasps this issue], the solutions that are available to us are horrific, because [there is] dissonance between what we need to do to close those budgets, and what those obligations mean. People can't wrap their head around it all; no matter how many times we explain it, with numbers, with correlating the numbers to teachers' bodies, saying "this is 100 teachers." We're all trying to do outreach campaigns to stakeholders but it's just not seeping in.*

Finding #4: Due to a growing concern that dollars are not reaching schools, but instead being used to fund pensions, parcel taxes have faced increasing opposition in Marin County.

2016 was a watershed year for parcel taxes in Marin County; the Kentfield community rejected a local parcel tax,[25] and a separate parcel tax in Mill Valley won by fewer than 25 votes. A number of district and county leaders connected this directly to rising pension costs. A Board Trustee shared, "[Rising pension costs] have cut into our ability to raise revenues. [The County has had] parcel taxes fail, primarily [due to the idea that] this is just a backdoor way of paying for more pensions. They don't want a parcel tax for pensions, they want it to go to kids, and so it's been a big factor in every major parcel tax opposition for the last couple of years."

Several leaders connected this rising opposition to the rise of a new advocacy group, CO$T. As one Superintendent said, "We now have organized opposition to parcel taxes from CO$T. Their biggest message is, 'don't increase the parcel tax, it will only go to pensions.' " A Board Trustee from another district provided a more balanced assessment of CO$T's mission: "They have done school districts and other municipalities a favor by sharing the circumstances under which they'll support a tax or be neutral. They do realize taxes are necessary." As CO$T founder Mimi Willard explained to the *Marin Independent Journal* in January 2019, "We understand that taxes are necessary for the general good, but we want to make sure the money is well spent and that the taxes are as fair and as affordable as possible" (Halstead, 2019).

Several interviewees reported that community members felt a sense of deep tax exhaustion. As one Superintendent who had led his district through a round of painful budget cuts shared, he faced a sense from community members of "wait, we pay so much in property tax. Why are there cuts?" Another Superintendent from a relatively cash-strapped district described a community member bringing in her county assessment bill while they sat together and counted 16 local taxes.

The 2018 federal tax reform may also have an impact by limiting the State and Local Tax (SALT) deduction to 10,000 dollars. As a result, many Marin residents are able to deduct a much lower amount of their local and state taxes.[26] Advocates and a small number of district administrators have hypothesized that community members may be less willing to support local taxes due to the changes in SALT deductions over time.

[25] A parcel tax was approved in Kentfield in 2018. The 2018 tax had a lower annual increase than the 2016 version (three percent as compared to six percent).

[26] Tax filers who choose to itemize their deductions are able to deduct their state and local tax payments from their federal tax bill. Previously, there was no limit on these types of deductions. The 2018 Tax Cuts and Jobs Act (TCJA) set a $10,000 limit on this deduction. For more, see https://www.forbes.com/sites/kellyphillipserb/2019/09/11/state-and-local-tax-salt-deduction-caps-may-get-another-look/#7622c356b5d5.

One strategy districts are using to pass local parcel taxes is to provide carve-outs that ensure that parcel tax funding won't be used for pensions or other benefits. For example, through interviews, we learned that Mill Valley School District has never allowed its parcel tax dollars to pay for pension benefits. In Miller Creek Elementary School District (formerly Dixie School District), the school district also made the decision not to allow parcel tax dollars to be used for employee benefits.

Finally, several districts reported that they have seen an increase in seniors requesting an exemption to the parcel tax. One Chief Business Official (CBO) noted that their staff reviewed apartment listings to look for apartments for rent that had claimed the senior exemption. The CBO shared, "Of nine rentals online on a given weekend, seven were getting exemptions, turning them into rental properties."

Recommendations and Lessons Learned

In the April 2019 report, *The Big Squeeze: How Unfunded Pension Costs Threaten Educational Equity*, Melnicoe, Hahnel, Koedel, and Ramanathan made the following recommendations:

- **For districts:** (1) Collaborate with stakeholders to understand the fiscal situation, make tough decisions, plan ahead, and advocate for a statewide solution, (2) Align instructional goals with the budget, and (3) Only make investments that can be sustained over time.
- **For the state:** (1) Increase state revenues for education, (2) Identify ways to tackle unfunded pension liabilities without encroaching upon district budgets, (3) Identify ways the state pension program can be modernized and restructured in order to benefit teachers and decrease costs, and (4) Pair new state investments with new revenue sources.

This case study affirms those recommendations and leads to several new recommendations. These new recommendations apply not only to school districts in Marin County but also to other districts facing a similar combination of statewide pressures, including rising unfunded pension costs and growing opposition to local taxes for schools.

- **Districts facing real and unavoidable cost increases simply need more funding.** Addressing student needs, while also putting every student on the path toward college and career readiness, simply costs more than we have been investing as a state for decades. Declining enrollment, rising pension costs, the increase in the minimum wage, higher energy costs, increased facility costs, and countless other cost drivers only exacerbate this. If state and local leaders want to fully support student success and stop seeing districts enter financial distress, they will need to find additional sources of revenue. While revenue-driven solutions alone cannot address all the issues causing the current squeeze, revenue is an important part of the solution. At the same time, taxpayers may hesitate to make larger investments until they know money is benefiting students.

- **Continue to build awareness of the impact of rising pension costs, and work together to identify solutions.** Rising pension costs have become a contentious issue in Marin County and are likely to become similarly contentious in other parts of the state. Pensions, other benefits, and salaries are key to attracting and retaining teachers. Students deserve high-quality learning environments. In Marin, one solution could be creating a county-wide taskforce that seeks to find a middle ground between the real needs of students and educators, and concerns about unsustainable pension costs. Many of Marin's districts have been leading communications campaigns to educate community members about their finances; this will need to continue in order to ensure that community members have the information they need to understand district budgets and how they will be affected by proposed parcel taxes and other tax proposals. Districts should continue these efforts and work with stakeholders, including labor partners, to develop a narrative that captures the issue to ensure necessary funding for schools. These narratives can demonstrate that increased funding for education can allow the region to continue to attract and retain top educators and to ensure continued and expanded student success.
- **Given the increasing vulnerability of local taxation, state and local advocates should prioritize a statewide funding solution.** Some advocates have proposed expanding taxation authority for school districts beyond parcel taxes, and others have proposed lowering the parcel tax vote threshold from two-thirds to a simple majority or 55 percent, the threshold used for school bonds. While these changes might make it easier to raise local revenues for schools, this Marin case study shows that such efforts also face anti-tax countercurrents. Factors such as the 2018 federal cap on State and Local Tax (SALT) deductions and a growing sense of tax exhaustion may make it harder for districts to raise funds locally, even in communities that have long supported them. Further, a greater reliance on local taxes would exacerbate inequities between high- and low-wealth districts. State and local leaders should prioritize the development of a statewide solution and should only consider expanding local taxation if they can mitigate resource inequities via other channels. Many Marin residents are passionate about resolving the structural issues that created this squeeze. With state-level work, Marin advocates may be able to influence the statewide system going forward. This may involve advocating for alternatives to the current system, which typically works well for teachers who spend their careers within

one state, but is likely to continue to accrue liabilities and does not provide adequate retirement savings for teachers who spend fewer than 28 years in the classroom (Aldeman & Vang, 2019).

Conclusion

Unfunded pension costs are squeezing Marin County school district budgets and have attracted the attention of advocates. As a result, parcel taxes have becoming increasingly challenging to pass, even as schools in Marin struggle to maintain programs and services. Marin County may be the "canary in the gold mine," an early warning sign of changes to come in other parts of the state. As other communities begin to grapple with the impact of rising pension costs on public services, including education, progressive Marin County may be a harbinger of perilous political dynamics around pensions, taxes, and education funding for rest of the state. The time is right for the community to collaborate in order to identify solutions and to direct their advocacy towards the state.

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About

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