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MEDIA SURVEY
RPEA is a non-profit association of retirees and active employees who are members of CalPERS.

MEMORANDUM
February 12, 2018

TO: RPEA

FROM: Marketplace Communications

RE: Daily Media Clips

Following are today's news clips:

ATION	TITLE & LINK
sions	When do CalPERS rates become 'unsustainable'? https://calpensions.com/2018/02/12/when-do-calpers-rates-become-unsustainable/
e ento e	Cities should fess up about taxes and pensions. Sacramento, that means you http://www.sacbee.com/opinion/california-forum/article198975699.html
e ento e	California pensions facing hit as charter schools consider leaving http://www.sacbee.com/news/politics-government/the-state-worker/article199324794.htm
.com	CALSTRS BITES APPLE! But who has hurt California kids more? https://medium.com/@DavidGCrane/calstrs-bites-apple-98864f34c8a
onica out	Fiscal Forecast Improves but Red Ink Looms for Santa Monica City Hall https://www.surfsantamonica.com/ssm_site/the_lookout/news/News-2018/February-2018/02_08_2018_Fiscal_Forecast_Improves_but_Red_Ink_Looms_for_Santa_Monica_City_H
or.org	Formerly bankrupt Stockton teams up with foundation to see what happens when some residents a a "universal basic income." https://spectator.org/an-experiment-thats-doomed-to-fail/

When do CalPERS rates become 'unsustainable'?

The use of the word "unsustainable" had a distant echo this month as the League of California Cities issued a study of CalPERS rates, a move to get stronger local options for controlling rising pension costs.

Over the next seven years, the study found, city CalPERS costs will increase more than 50 percent. The annual pension bite for the average city will reach 15.8 percent of the general fund, nearly doubling from 8.3 percent a decade ago.

A key finding of the study by Bartel Associates actuaries, using CalPERS data and survey replies from 229 cities, is that "city pension costs will dramatically increase to unsustainable levels."

Nearly a decade ago the CalPERS chief actuary then, Ron Seeling, made a similar prediction at a seminar sponsored by the Retirement Journal in August 2009. The CalPERS investment fund had just lost $100 billion during the financial crisis and market crash.

"I don't want to sugarcoat anything," Seeling said. "We are facing decades without significant turnarounds in assets, decades of — what I, my personal words, nobody else's — unsustainable pension costs of between 25 percent of pay for a miscellaneous plan and 40 to 50 percent of pay for a safety plan … unsustainable pension costs. We've got to find some other solutions."

The average CalPERS contribution for local governments in the current fiscal year is approaching Seeling's "unsustainable" level — miscellaneous 21 percent of pay and safety (police and firefighters) 40.45 percent.

In seven years, the League study expects rising CalPERS employer rates to be well above those mentioned by Seeling. By then a gradual rate increase will be fully phased in, filling the funding gap created by lowering the investment earnings forecast from 7.5 to7 percent.

“In FY 2024–25, half of cities are anticipated to pay over 30.8 percent of their payroll towards miscellaneous employee pension costs, with 25 percent of cities anticipated to pay over 37.7 percent of payroll,” said the study. (see chart)

For safety or police and firefighters: “By FY 2024–25, a majority of these cities are anticipated to pay 54 percent or more of payroll, with 25 percent of cities anticipated to pay over 63.8 percent of payroll.”

A call to “convene the stakeholders” was another similarity between the League study finding of “unsustainable” pension costs and remarks at the seminar in 2009 that followed Seeling’s call for solutions.

“It is our hope that this report today helps inform the discussions that can be used across stakeholders to acknowledge that there is a problem and encourage all of us to come to the table to help forge solutions,” Carolyn Coleman, League executive director, said this month.

At the seminar in 2009 the CalPERS chief executive then, Anne Stausboll, said the CalPERS board had talked about the “cost and sustainability of pension benefits” the previous week and decided that the system should take a “proactive role” on the issue.

“They asked us to formulate a way to convene our stakeholders — employers, labor, legislators and other stakeholders in our system — to convene everybody and start having a constructive dialogue on sustainability of pension benefits,” Stausboll said.

At the League news conference a reporter’s request for a definition of “unsustainability” was answered by Daniel Keen, a former Vallejo city manager with two decades of experience in five cities.

The ability to absorb rising pension costs varies from city to city, Keen said, but one thing unsustainable for all is the erosion of basic services. He said uncertainty causes reluctance to fully staff police, fire departments, and public works maintenance.

As discretionary services such as libraries, parks and recreation are threatened, long-term commitments are less likely. Though the economy is growing and unemployement is low, cities are forced to make tough budget decisions.

“That’s not a good model for sustainability, considering that we will probably see recessions again in the future that will be much more difficult to manage through simply because of these rates,” Keen said.

FY 2024–25 Contribution Rates[1]

Cities/Towns		
Percentile	Miscellaneous	Safety
90th	18.8%	35.2%
75th	25.2	44.8
50th	30.8	54.0
25th	37.7	63.8
10th	43.0	76.0

[1] CalPERS projected rates adjusted for June 30, 2017 actual investment return and PEPRA.

Percentile means x% of cities have results that are higher than shown

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Contribution % GF Budgets

Cities/Towns			
Percentile	2006/07	2017/18	2024/25
90th	2.0%	2.5%	6.1%
75th	3.8	4.6	8.5
50th	7.6	9.1	13.7
25th	9.8	13.2	18.2
10th	12.8	15.5	21.5
Average	8.3%	11.2%	15.8%

Percentile means x% of cities have results that are higher than shown.

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Managing the scheduled CalPERS employer rate increases over the next seven years will be difficult for many cities, even if a deep recession and plunging stock market does not create the need for additional rate increases.

The League needs to "convene the stakeholders" because the new cost-cutting local options urged in its "Pension Sustainability Principles," adopted last June, require legislation or a change in the "California rule" court decisions that prevent cuts in the pension offered at hire.

For example, current law prevents cities from negotiating with labor unions to give employees a lower pension for work done in the future, while protecting pension amounts earned in the past.

One of the League sustainability principles calls for converting employees hired before a pension reform on Jan. 1, 2013, (called "classic" by CalPERS) to the lower pension formula given employees hired after the reform.

At a workshop in November on proposed investment allocations that could raise employer rates, representatives of two cities told the CalPERS board their employees are willing to negotiate earning lower pensions in the future but cannot under current law.

"Our 'classic' employees, which are about 87 percent of our workforce today, have indicated a willingness to take a reduction prospectively in the benefit package offered if it were allowed," said the Hanford city manager, Darrel Pyle.

"Many of our employees have signaled that a reduction in the benefit formula going forward would be much more palatable than additional pay reductions or potential reductions in staff," said the Bencia human resources manager, Kim Imboden.

Cutting pensions earned in the future was the top recommendation of an influential Little Hoover Commission report in 2011 and a key part of a pension reform approved in 2012 by San Jose voters, which was overturned by a superior court.

The League study said "the most prominent source of the pension system's cost escalation" began with higher pensions granted by state and local governments under legislation around 2000, when CalPERS had a surplus that was said to cover most of the cost.

Other sources of the cost increase, said the study, are investment losses, an actuarial policy that delays payment of debt, demographic change that has pension debt for retirees exceeding the debt for active workers, and automatic pension cost-of-living adjustments.

Another league sustainability principle is a "temporary modification" to COLAs that "are automatically added to a retiree's pension benefit payment regardless of compensation level or CPI."

Cities in CalPERS can choose compounding COLAs of 2, 3, 4, or 5 percent, depending on union bargaining. The COLA for teachers in CalSTRS is fixed at 2 percent of the initial monthly payment. COLAs in private-sector pensions are rare.

Last September the CalPERS board was told that a COLA freeze could increase pension funding by up to 18 percent for safety plans and up to 15 percent for miscellaneous plans.

The board rejected a request to analyze the cost savings of COLA suspensions and switching all employees to the lower pension given post-reform hires. The request was backed by cities but opposed by unions.

With the current cost-cutting options, cities that are financially able can pay down debt quickly or set aside money for future pension costs. Some cities have been unable to restore services cut during the recession because rising pension costs eat up improving revenue.

Asking voters to approve tax increases and employees to contribute more toward their pensions also are options. A city that mentioned the possibility of bankruptcy in September, Oroville, did not use the "bankruptcy word" while addressing the CalPERS board in November.

A federal judge ruled in the Stockton bankruptcy that pensions can be cut. But Stockton, like bankrupt San Bernardino, did not try to cut pensions, saying pensions are needed to be competitive in the job market, particularly for police.

The state Supreme Court has agreed to hear appeals of two appeals court rulings that would weaken or eliminate the "California rule," allowing pension cuts. The high court could make a narrow ruling that does little to alter vested rights precedents.

If the Supreme Court upholds the appellate rulings, cities might have to "convene the stakeholders" to get legislation allowing change. Attempted statewide pension initiatives have struggled with selecting a retirement replacement, funding, and unfavorable ballot summaries.

CalPERS funding, 101 percent in 2007, has not recovered from the huge loss a decade ago, despite a lengthy bull market. Last year the funding was only 68 percent of the projected assets needed to pay future pension obligations, little changed from a low of 61 percent in 2009.

Now CalPERS fears a deep recession or stock market plunge could drop its funding level below 50 percent, a red line some experts warn could be a crippling blow. Critics say the 7 percent earnings forecast is too optimistic.

In December the CalPERS board, as urged by cities, chose a new investment allocation that did not lower the current 7 percent investment earnings forecast, avoiding another large rate increase.

This week the CalPERS board is scheduled to consider a reform shortening payment of new pension debt from 30 to 20 years, triggering a small rate increase. In November some cities opposed the change, saying "the employer pays more option is no longer viable."

Cities should fess up about taxes and pensions. Sacramento, that means you

BY DAN WALTERS
February 11, 2018 12:01 AM
Updated February 11, 2018 12:01 AM

California's political leaders don't have to look very far to find a stark example of the pension cost crisis facing the state's 482 cities.

Three blocks from the Capitol, in Sacramento's city hall, Mayor Darrell Steinberg – a former leader of the state Senate – and other officials are seeing pension costs skyrocket.

"Over the past nine years, the city's pension expense has increased by 28 percent or $14.5 million," says a passage in the city's 2017-18 budget. "Over the next eight years, the city's pension cost is expected to more than double what is currently paid."

The California Public Employees Retirement System (CalPERS), which handles pensions for virtually all Sacramento city employees, says in its most recent "actuarial evaluations" that the city's costs will rise from $92.8 million in 2018-19 to $159.4 million by 2024-25, a $66.6 million increase.

Keep that number in mind, because it bears an uncanny resemblance to another figure.

Immediately after explaining the rising pension costs, the city's budget talks about Measure U, a half-cent increase in the sales tax that city voters approved in 2012 and that will expire next year.

Based on current retail sales activity in the city – $6.4 billion in 2016, the last year for which complete data are available – the half-cent tax now generates about $32 million a year, mostly dedicated to police and fire services.

City officials not only want to ask voters to renew that tax, but Mayor Steinberg and other officials may ask them to double it to a full cent, which would raise at least $66 million a year as taxable sales rise.

Sound familiar? It's very close to the projected increase in the city's annual pension costs, driven primarily by those for police officers and firefighters. By 2024, CalPERS projects, Sacramento will be paying 61 cents into the pension fund for every dollar of police and fire salaries, up from 43 cents in 2018-19. For non-safety "miscellaneous" employees, payments will rise from 19 cents per $1 of payroll to nearly 28 cents.

Of course, rising pension costs aren't being mentioned as a reason why the city may be asking its voters to pay more taxes.

During his State of the City address in January, Steinberg talked about creating a multibillion-dollar fund to pay for infrastructure, affordable housing, cultural amenities and incentives to attract new business.

"With more capital, we can direct and lead more of the change we want to see," Steinberg said.

He said money for the new city improvement fund would come from a new tax and/or sale of unneeded city property.

Facts, however, are facts.

CalPERS is making ever-increasing demands on Sacramento and other local governments for more money to prop up its trust fund, which has scarcely two-thirds of the money it needs to meet current pension promises.

The City of Sacramento's two CalPERS accounts are similarly short, with the police/fire system just 66.5 percent funded and the one for other employees only slightly better at 70.8 percent, its actuarial statements say.

Renewal of Sacramento's expiring half-cent tax would cover perhaps half of the projected increase in annual pension costs, but crowd out other services the tax now finances. Were voters to double it to a full cent, virtually every new dollar it generated would be needed to pay increased CalPERS demands.

Asking voters to raise taxes for popular services without mentioning rising pension costs has become a common tactic in California's cities.

The League of California Cities has raised the alarm about "unsustainable levels" of pension costs. Isn't it time for the cities themselves to be truthful when they ask voters for new taxes? And isn't Sacramento the right place to begin the truth-telling?

California pensions facing hit as charter schools consider leaving

BY ADAM ASHTON
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February 09, 2018 10:44 AM
Updated February 11, 2018 04:06 PM

One of the state's largest charter school organizations is exploring whether it wants to withdraw from CalPERS, raising alarms among unions and public pension officials who fear a gradual weakening of the fund.

Aspire Public Schools, which operates 36 schools in California, opened talks with the California Public Employees' Retirement System after the charter school organization's board of directors unanimously voted in November to consider leaving the $345 billion pension fund.

Aspire has three schools in Sacramento, three in Modesto and eight in Stockton. It also has campuses in the Bay Area and in Los Angeles. Its representatives did not return multiple calls and email messages seeking comment.

Wayne Davis, a CalPERS spokesman, confirmed that Aspire had contacted the agency to request information about how it can terminate its participation in the fund. Organizations that leave CalPERS pay hefty termination fees that are invested into low-risk pools to support pensions owed to their retirees and workers.

Minutes from Aspire's recent board meetings show that its leadership had grown concerned about the rising ongoing cost of funding pensions. California's public pension funds have been raising those charges since 2012 while they try to catch up with their recession losses.

Aspire's annual financial reports show that its spending on pensions doubled since 2014. Last year, it spent $12.2 million on bills to CalPERS and the California State Teachers' Retirement System.

Aspire has not taken steps to separate from CalSTRS, the $225 billion fund that pays pensions to teachers. Aspire's classified employees belong to CalPERS, while its teachers participate in CalSTRS.

One school district on its own choosing to break from CalPERS would not worry the pension fund or the unions that advocate for public employees. About 900,000 people are enrolled in CalSTRS, and 1.9 million workers and retirees are in CalPERS.

But Aspire's [inquiry about leaving CalPERS]comes at a moment when a rising share of new charter schools are declining to enroll their employees in CalPERS and CalSTRS. Instead, they're offering alternative retirement plans.

Until 2014, about 90 percent of new California charter schools offered retirement benefits through CalSTRS. That ratio dropped to 80 percent four years ago and 67 percent in 2015, according to CalSTRS.

CalSTRS believes that the charters are choosing alternative retirement plans because of climbing employer contribution rates. A decade ago, schools paid about 8 percent of an employee's wages to CalSTRS. Now, the contribution rate is 14.4 percent and rising to 19 percent.

"It's a very different financial equation for new charter schools," CalSTRS Chief Executive Jack Ehnes said on Thursday at a CalSTRS board meeting.

Today, California's 1,275 charter schools teach about 10 percent of the state's K-12 students, up from 2 percent in 2000.

"At some time, if they become 20, 40 percent of the public schools, that could cause a serious shortfall in the pension systems," said Dave Low, president of the California School Employees Association, the union that represents classified public school workers.

The California Federation of Teachers in 2012 sponsored a bill that would have required charter schools to offer retirement plans through CalPERS and CalSTRS. The California Charter Schools Association opposed the bill, arguing that charter schools needed flexibility in setting their finances.

The political dynamic remains the same as it was six years ago. Unions, which generally oppose charter schools, want charters to join CalSTRS and CalPERS.

"We're disappointed that charter schools would choose to put the retirement security of their teachers at risk," said Matthew Hardy, spokesman for the California Federation of Teachers.

Charters want to keep their options open.

“California’s charter public schools have been granted flexibility to demonstrate innovation in important aspects of school operations like the administration of teacher retirement plans. Teachers are at the heart of what makes schools great and flexible, portable, and secure retirement plans are essential to charters’ ability to recruit and retain excellent teachers while also managing limited financial resources,” the charter school association said in a written statement.

Also Thursday, the Alameda County Office of Education appealed to CalSTRS for help in collecting a pension bill from a defunct charter school.

Tri-Valley Learning Corporation, which operated charter schools in Livermore, closed in June without paying its final bill to CalSTRS. CalSTRS is demanding the $50,000 payment from the Alameda County Office of Education

Karen Monroe, Alameda County’s superintendent, asked CalSTRS to instead file a lien against the defunct company. “I worry that this scenario establishes a precedent that affects not only our county but others across the state and that this issue is the tip of the iceberg,” Monroe told the CalSTRS board.

When local governments quit paying bills to CalPERS without making termination payments, the pension fund slashes benefits to their retirees.

Derick Lennox, a lobbyist who represents school districts, said “there is clearly a burgeoning, systemic threat to educational services across the 58 counties. We know CalPERS and CalSTRS do not relish placing their partners, the county offices, in this position. It’s going to take a joint effort with education stakeholders to find ways to keep the systems sustainable without simply shifting costs to local educational agencies that, in the first place, did not create those costs.”

The Sacramento County Office of Education and the San Juan School District were trying to figure out if they faced a similar problem this week when Paramount Collegiate Academy abruptly closed. They did not know yet whether Paramount had outstanding pension debts. CalSTRS confirmed that teachers at the school were enrolled in the pension fund.

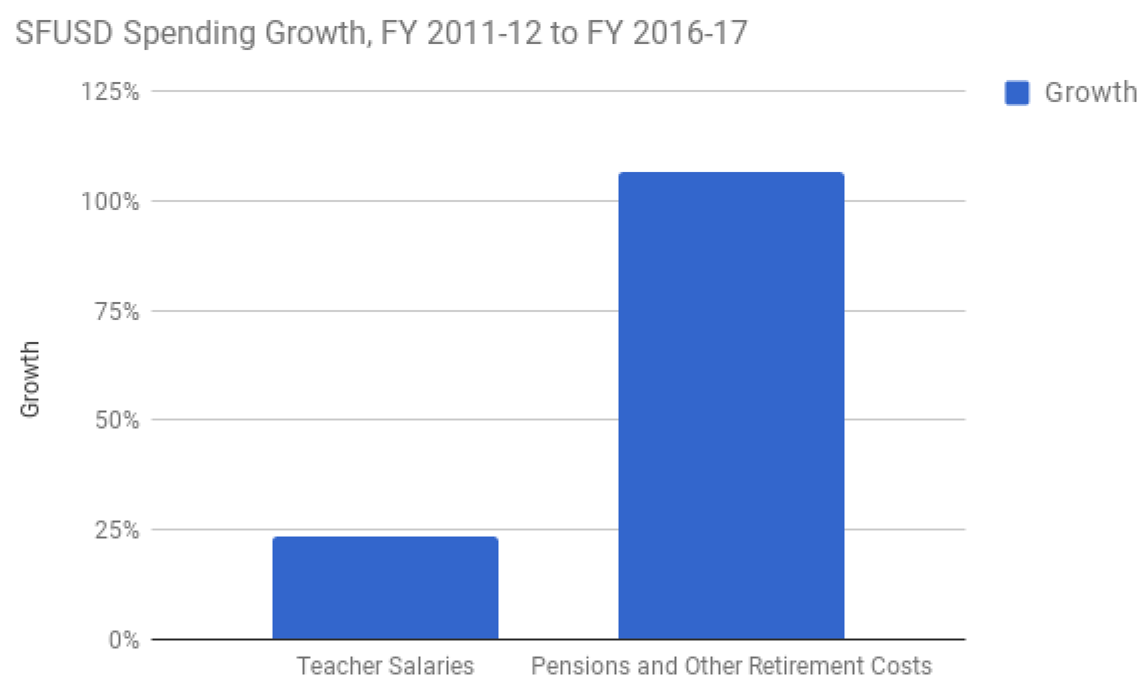
Paramount received its charter through the state Department of Education and the local offices did not have a clear picture of its finances.

“We’re not entirely sure yet,” said Sacramento County Superintendent David Gordon. “We just found about it last night, so we’re looking into whether they’re current with their financials.”

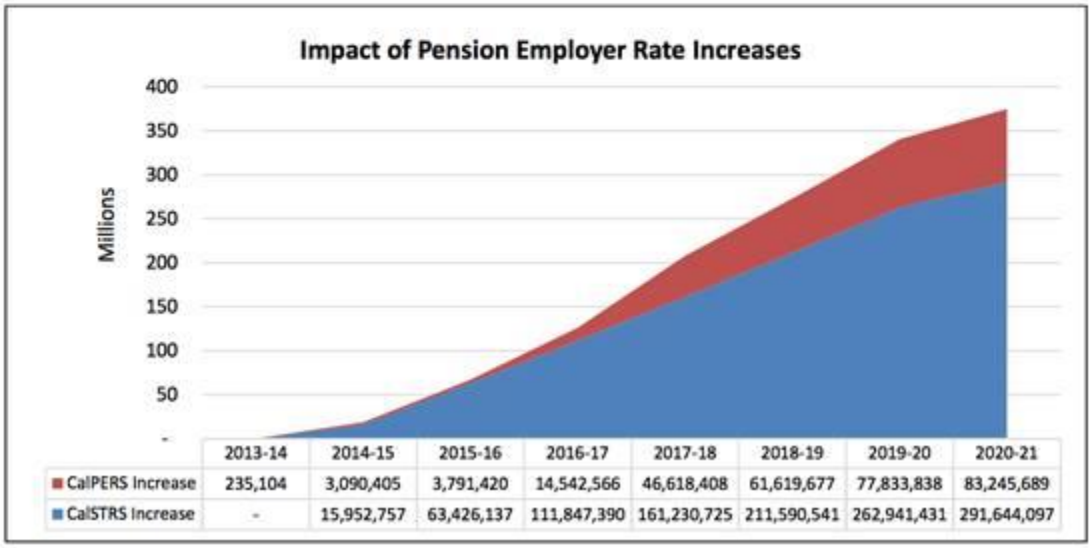
CALSTRS BITES APPLE!

But who has hurt California kids more?

Apparently the board of the California State Teachers' Retirement System (CalSTRS) worries that Apple's smartphones negatively impact child development. Presumably there will now be a lot of research on that subject. But no research is needed to prove this point: Child development in California is being negatively impacted by exploding pension costs that prevent school districts from hiring enough teachers and paying them sufficient wages. Look what has happened to the San Francisco Unified School District:



SFUSD doesn't have enough money to attract and retain teachers because spending on pensions and other retirement costs more than doubled over the last five years, as explained here. Los Angeles Unified is in the same boat, as illustrated below and explained here:



Los Angeles Unified School District

The costs of meeting unfunded pension obligations are stripping California classrooms bare. That's because CalSTRS's board hid the truth. In 2005 CalSTRS was warned that it was hiding the real size and cost of pension obligations and that if not addressed at that time, classrooms down the road would be decimated by pension costs. All CalSTRS's board had to do was tell the truth and act accordingly. But it chose another road and classrooms today are paying the price.

One result is that California's gross spending per student is high but poor and minority students in states like Texas that spend less perform better. That's in large part because tax dollars are being diverted to obligations hidden by CalSTRS's board. Governor Brown just announced that the state expects to spend more than $16,000 per student in the next budget year yet SFUSD, LAUSD and other school districts will still not hire enough teachers and pay sufficient wages because so much of that money will go to unfunded pensions.

Math is inexorable. CalSTRS couldn't hide the truth forever. But—in the absence of reform—there's worse to come. No one has hurt California kids more than CalSTRS's board. Legislators and the governor need to step up.

Fiscal Forecast Improves but Red Ink Looms for Santa Monica City Hall

By Niki Cervantes
Staff Writer
February 8, 2018 -- Cobbling together a record $45 million payment last year for unfunded employee pensions helped postpone a deficit at Santa Monica City Hall, but millions of dollars in red ink are coming anyway, according to a new fiscal forecast.

When the City was formulating a $1.57-billion biennial budget for fiscal years 2017-2019, the finance director warned City spending was outpacing revenue and -- combined with a slowing of the economy -- would face escalating deficits from fiscal years 2019-2020 to 2021-2022.

In an update to the City Council, officials now say the City has skirted a deficit next year, primarily because of the pension paydown it made last year ("City Council Approves Record Payment Toward Santa Monica's Unfunded Employee Pensions," June 15, 2017).

But the red ink sneaks in by 2019-2020 at $0.3 million, although it is less than originally projected, and reaches $10.6 million the next fiscal year, compared to the $16.4 million at first predicted.

The mid-year update goes to the City Council at its meeting next Tuesday and was prepared by Gigi Decavalles-Hughes, director of finance; Susan Cline, director of public works; and Donna Peter, director of the human resources department.

Like others in California, Santa Monica officials are still bracing for an economic slowdown.

The forecast has improved, the report to the council said, pinning the better picture due to the City's $45 million payment -- which was used mostly to paydown its now $460 million unfunded liability -- and a "negotiated one-year rate maintenance with the City's primary health insurance provider," the report said.

But the City also bumped up revenues after staff "converted some revenue sources from one-time to ongoing streams based on recent years' actuals (e.g., partial Transient Occupancy Taxes from short-term home rentals, Building and Safety fees)," the update said.

The authors noted that Santa Monica's economy remains relatively strong, due in large part to its geographic location and its diversified tax revenue base.

But growth of its biggest sources of funding is slowing.

Property values -- the third largest in Los Angeles County -- are expected to fall from increases of about six percent annually to between three and four percent.

Sales taxes are also slowing.

But tourism is still strong. Hotel taxes, which have jumped an average annually of more than nine percent for seven years, are expected to yield healthy increases as more hotels open.

Officials are still weighing possible future scenarios. In the best-case version, the budget's General Fund -- the lion's share of spending -- stays out of the red and reaches a positive balance of $3.9 million.

In the worst case, shortfalls arrive in 2018-2019 and escalate to reach $29 million in fiscal year 2021-2022.

Formerly bankrupt Stockton teams up with foundation to see what happens when some residents are given a "universal basic income."

Sacramento

If the states are supposed to be laboratories for democracy, where new ideas that reflect regional attitudes can flourish, then cities are like micro-laboratories. Local governments can try out ideas that would never get statewide traction. Unfortunately, some California cities are more like laboratories run by Dr. Frankenstein, where frightening concepts are given life — and local residents have few other choices than to flee to other places.

Most conservatives are familiar with the goings-on in San Francisco, where stringent rent-control laws have — I know you're surprised by this — led to the least affordable rents and most unaffordable home prices. Parts of the "City by the Bay" resemble an open-air cesspool, given the homeless problem caused by myriad public policies. It's magnificently beautiful, though, so the city remains a magnet despite its officials' best efforts to destroy it.

But what happens to a city that has few natural advantages, a less-desirable climate and nothing in particular to draw people to it? Apparently, Stockton — an historic San Joaquin Valley agricultural and port city 80 miles east of San Jose — is trying to cram every conceivable bad experiment into its 64.75 square miles. The latest idea is to offer a "universal basic income" to a few dozen residents to see what happens when you give people money for nothing.

KQED News pinpoints some of Stockton's enduring problems: "Wage stagnation. Rising housing prices. Loss of middle-class jobs. The looming threat of automation." We can add some others: A dreadful violent-crime problem, trash-strewn streets, a vacant downtown that could be a movie set for a third installment of Blade Runner, crumbling public services, overpaid public employees, high taxes, and a troubled city budget.

Mayor Michael Tubbs, an enthusiastic 27-year-old Democrat, has shown a keen interest in trying "new" things in the city. Last summer, for instance, he proposed paying people not to commit gun crimes, and now he's working with some Bay Area entrepreneurs who are providing the funds to give some families $500 a month with no restrictions on how they spend the cash.

The Economic Security Project is backing the Stockton Experiment, based on its belief that "cash is an effective way" to rebuild the middle class and fight poverty. "Automation, globalization, and financialization are changing the nature of work, and these shifts require us to rethink how to create economic opportunity for all," the group explains on its website.

Some conservatives have actually pitched a guaranteed-income concept. The thinking, advanced by Nobel laureate Milton Friedman, is to "replace the ragbag of specific welfare programs with a single comprehensive program of income supplements in cash — a negative income tax." Such an idea, he added, "provides comprehensive reform which would do more efficiently and humanely what our present welfare system does so inefficiently and inhumanely."

This is one of those cases where the concept makes a certain amount of sense in the philosophical realm, while being borderline crazy in the real world. If California ended its generous "ragbag" of welfare and support programs — programs that can provide more than $35,000 in benefits a year — then simply giving the recipients a cash payment could potentially reduce the size of the bureaucracy. It would presumably provide additional incentives to work, given that most of these programs are income-based and fade away if recipients work.

In the real world, it would expand government spending. Bureaucracies never go away. I recall the cost savings that would ensue after California sensibly decriminalized certain low-level crimes, yet there have been few budget reductions in various law-enforcement agencies. And chalk it up to human nature, but many Americans are not about to do anything productive if it's easy enough to get a living wage while playing video games and downing six packs.

In a recent column, I argued that these funds aren't enough to live on even in Stockton and also quoted a critic who said that a universal basic income would reduce incentives for work and self-reliance. The Stockton Record's metro columnist criticized me for "a contradiction in this argument: $500 is not enough to live on but people who receive it will become lazy layabouts."

It's not actually a contradiction. Stockton's plan isn't enough to live on, so it will lead to endless calls by recipients for more money. A full-blown guaranteed income would indeed destroy whatever is left of the nation's work ethic. Basically, 500 bucks would cause a little bit of sloth, while 50,000 bucks would cause a lot of it. It's all a matter of degrees. But it's hard to see what kind of experiment the city hopes to run if it's only providing a pittance in income and isn't ending other government programs.

It is easy to spot an underlying reason that this idea is rearing its head again. Some thinkers, especially on the Left, argue that the burgeoning tech industry is creating a winner-take-all economy, and that eventually automation will replace too many low-level jobs. Apparently, they believe a large portion of Americans will be permanently unemployable and just need a stipend. This is nonsense. The tech industry is creating far more jobs and opportunities than it replaces even on the lower end, but that's where some of the impetus is coming from.

Leave it to Californians to go down this road, when a simpler path is so much better. Note that our state has the highest poverty rate in the nation, according to the Census Bureau's cost-of-living adjusted model. The reason is fairly clear, and it has nothing to do with the state's refusal to be generous enough with its welfare payments.

Our current public policies have destroyed middle-class and manufacturing jobs through excessive regulation and high taxes. They've destroyed many low-income jobs by raising minimum wages and passing union-backed work rules. We've created an education system that graduates functional illiterates. The state's slow-growth rules have driven up rents and housing prices, thus delegating lower-income people to squalor.

On the local level, Stockton went bankrupt in 2012 because of its misplaced priorities. For instance, it paid ridiculous compensation packages to public employees and "invested" public funds in showy redevelopment projects that remain surrounded by vacant buildings. Instead of reducing pension packages, as the federal bankruptcy judge allowed, the city raised taxes. So now Stockton has an even harder time drawing businesses.

Opinion: What Janus v. AFSCME means for California

AP Photo/Jacquelyn Martin

Union members rally outside of the Supreme Court in Washington, Monday, Jan. 11, 2016, as the court heard arguments in the Friedrichs v. California Teachers Association case.

By DANIEL DISALVO |

PUBLISHED: February 8, 2018 at 7:30 pm | UPDATED: February 9, 2018 at 11:59 am

Public unions are among California's most powerful political forces. Whether you support them or not, they've driven up public employees' wages and benefits and contributed to California's massive debt and unfunded liabilities, all of which has helped to make the Golden State one of the most expensive in the union.

Yet thanks to an Illinois-state employee named Mark Janus, some relief may be in sight — for California taxpayers, lawmakers and independent-minded public employees alike.

The Supreme Court will soon hear arguments in Janus v. AFSCME 31. At issue are the free speech rights of public employees forced to pay union "agency fees" for representing them in collective bargaining, whether or not they join the union. Mr. Janus argues that agency fees oblige him to subsidize union political activity with which he disagrees. Such compelled speech, he contends, violates his First Amendment rights.

If the Supreme Court rules in favor of Mr. Janus — which most expect it will with Justice Neil Gorsuch now on the bench — public unions stand to lose political power. But California lawmakers (and those in other states) might thereby gain the breathing room they need to better adapt to federal tax reform and, more generally, get their fiscal house in order.

The case is in many respects a rerun of 2016's Friedrichs v. California Teachers Association, which the court deadlocked in a 4-4 vote after Justice Antonin Scalia's untimely death. As it stands now, workers who don't want to contribute to union politics must first refuse to join the union and then write an annual letter declaring themselves "objectors" to its political activities. The union then decides what percentage of the worker's fees it spent on collective bargaining and what percentage on politics, and reimburses that worker for the latter. If a worker fails to write the annual letter — for any reason — he or she will pay for union politics.

The problem, critics like Mr. Janus contend, is that collective bargaining with government is inherently political. Subjects of negotiation, such as wages and benefits, are ultimately political decisions about how much to compensate public servants. Therefore, the positions a union takes in collective bargaining are ultimately political positions. Forcing all workers to support them violates the rights of those who disagree.

Another problem, as Justice Samuel Alito has pointed out, is that in the public sector, collective bargaining and political activity are both directed at the government, making it nearly impossible to draw a clear line between them. Even if a clear line could be drawn, money is fungible, which means that dollars designated for non-political purposes can free up other monies for political activity. In that light, forced fees always violate First Amendment prohibitions on compelled speech.

If a Supreme Court majority accepts these arguments, it will strike down laws in 22 states, including California. As a result, public workers will no longer have to pay public unions as a condition of employment.

On the books for some 40 years, "agency fee" laws have been a boon to public employee unions. Because the fees are often set at nearly the same amount as dues, many workers just assent to joining the union. Forced fees thus inflate union membership and money.

Consequently, public employee unions have become political powerhouses in states and cities where forced fees are legal. In California, for example, between 2000 and 2010 the California Teachers Association spent over $210 million on political campaigns — more than any other contributor in the state and more than the pharmaceutical, oil and tobacco industries combined. And that was just one of the state's many public unions.

As a result, California's elected officials often accede to unions' demands for higher pay, better benefits and more job protections. The result is more expensive government. To cover those inflated costs, California's income and sales taxes are among the highest in the nation. But the recent federal tax reform, which caps the state and local tax deduction at $10,000, will make raising taxes more difficult in the future. Already under pressure from its rising pension costs, the state's fiscal flexibility is diminishing.
Yet, if the Supreme Court declares agency fees unconstitutional, some pressure might be taken off California's politicians. Unions in California and elsewhere would see their memberships and revenues decline. Some workers will stop paying for politics with which they disagree. Others will conclude that union representation just isn't worth the cost.

Bringing union strength more closely in line with public workers' real desires would reduce union political power. Over the long term, such a rebalancing may also have the salutary effect of allowing politicians to make the difficult decisions needed for sustainable fiscal policy. That would be good news for California, and state houses across the country.