



INDEPENDENT FISCAL OFFICE

Second Floor, Rachel Carson State Office Building
400 Market Street
Harrisburg, Pennsylvania 17105

September 27, 2016

The Honorable Joseph B. Scarnati, III
President Pro Tempore
Senate of Pennsylvania
292 Main Capitol Building
Harrisburg, PA 17120

The Honorable Mike Turzai
Speaker
Pennsylvania House of Representatives
139 Main Capitol Building
Harrisburg, PA 17120

Dear Sirs:

Section 604-B(a)(8) of Act 100 of 2016 (Act of July 20, 2016, P.L. 849, No. 100) requires the Independent Fiscal Office (IFO) to:

Provide a cost analysis for the current fiscal year and remaining subsequent fiscal years of the impact of each proposed collective bargaining agreement under the jurisdiction of the Governor prior to execution, including the costs to cover public employee wages, benefits, pensions and working conditions that have been reduced in writing under section 701 of the act of July 23, 1970 (P.L. 563, No. 195), known as the Public Employe Relations Act.

The IFO submits this analysis to the General Assembly in fulfillment of that obligation. The attached table provides a summary of the analysis for the current fiscal year and subsequent two fiscal years. The table itemizes the cost to the General Fund, Motor License Fund, Other State Funds (includes Lottery, State Stores and Restricted Accounts/Augmentations/Other Funds) and Federal Funds.

The analysis considers the recent collective bargaining agreement between the Commonwealth and AFSCME Council 13. The analysis uses the following parameters and data obtained from the state accounting system as of August 12, 2016:

- Total annual wage base of affected workforce: \$1,364 million.
- Total number of full-time equivalent employees covered: 31,986.
- Benefit rate: weighted-average rate of 40.7%. The benefit rate reflects indirect costs related to employee wages such as employer pension contributions, Social Security and Medicare taxes, and workers' compensation payments. For example, a benefit rate of 40% implies that those costs increase by 40 cents for each dollar increase in wages.
- Three general pay increases effective October 2016 (2.75%), July 2017 (2.00%) and July 2018 (2.50%).
- Two step increases effective January 2018 (2.25%) and January 2019 (2.25%).
- Two increases in the biweekly employer healthcare contribution, from \$455 to \$473 (July 2017) and then to \$486 (July 2018). This biweekly change represents an annual increase of \$468 (FY 2017-18) and an additional \$338 (FY 2018-19) in employer healthcare contributions per employee.
- An increase in the employee contribution rate for healthcare benefits from 2.0% to 2.25% (July 2017) and then to 2.5% (July 2018) of salary.

In order to estimate the incremental cost attributable solely to the collective bargaining agreement, the analysis must first project the “baseline” wages and benefits that would have been paid without the agreement. The baseline scenario assumes no change in wages or benefits paid to current employees, but incorporates two historical trends due to workforce attrition and turnover:

- A -1.0 percent per annum workforce attrition factor.
- A -1.5 percent per annum total wage attrition factor. This factor represents the reduction in total wages paid solely due to the fact that more experienced, higher-paid workers separate from service, and are replaced by new, lower-paid workers. All else equal (i.e., the total number of workers and wage rates do not change), this churning reduces total wages paid in the baseline scenario.

The baseline adjustments are based on AFSCME workforce data for the past three fiscal years, and the analysis assumes these trends would continue during the years covered by the agreement.¹

Based on these data, the general methodology for the projected increase in wage and benefit payments due to the agreement is as follows:

- Establish the baseline or “no agreement” scenario. The original total wage base for FY 2016-17 is \$1,364 million, and \$1,920 million if benefits are included. Apply a -2.5 percent attrition factor each year to reflect the two adjustments.
- Compute a second series that applies the negotiated general pay increases and step increases to that baseline, taking account of the effective dates.

¹ If both attrition factors were set to 0 (i.e., no change in workforce or its composition), then the estimated total cost of the agreement would increase by approximately \$17 million.

- Compute the differential. This represents the incremental cost of the agreement relative to the baseline scenario.

For the higher employer contributions for healthcare benefits, the analysis applies the annual dollar increase to the number of employees, using the above workforce attrition factor.

Using this general methodology, the attached table itemizes the cost to the state:

- For the General Fund, the total costs are \$13.2 million (FY 2016-17), \$41.2 million (FY 2017-18) and \$75.1 million (FY 2018-19). The three-year total is \$129.5 million.
- For the Motor License Fund, the total costs are \$8.4 million (FY 2016-17), \$26.4 million (FY 2017-18) and \$48.2 million (FY 2018-19). The three-year total is \$83.0 million.
- For Other State Funds, the total costs are \$12.7 million (FY 2016-17), \$39.8 million (FY 2017-18) and \$72.7 million (FY 2018-19). The three-year total is \$125.2 million.
- For Federal Funds, the total costs are \$5.3 million (FY 2016-17), \$16.8 million (FY 2017-18) and \$30.5 million (FY 2018-19). The three-year total is \$52.6 million.
- For All Funds, the total costs are \$39.6 million (FY 2016-17), \$124.2 million (FY 2017-18) and \$226.5 million (FY 2018-19). The three-year total is \$390.3 million.

The All Funds column represents the total impact of the agreement. The Federal Funds column represents the estimated amounts that will be initially incurred by a state fund, but will likely be reimbursed through federal funds.

The IFO bases this analysis on material transmitted by the Office of Administration on August 30, 2016. The Office of Administration provided the IFO with a Summary of Changes document that itemized all material changes contained in the contract, and for the purpose of this analysis, the IFO assumes that summary reflects all substantive changes. The Office of Administration also supplied detailed cost computations based on data extracts from the state accounting system. The IFO replicated certain extracts and reproduced much of the raw data transmitted to the office. The IFO did not attempt to extract the data used to apportion the impact across state and federal funds, and that aspect of the analysis is based solely on data supplied by the Office of Administration.

In addition to wage and benefit costs, the Office of Administration estimates that the state will save \$13.6 million due to increased employee contributions (includes union and management employees) for healthcare benefits under the new agreement. The office provided data to support that estimate, which was supplied by a contracted actuary. Based on the data submitted, the projected savings from the higher employee contributions is a reasonable estimate.

For the purpose of this analysis, the IFO did not consider any savings from health plan design changes made to the Pennsylvania Employees Benefit Trust Fund (PEBTF) or the Retiree Employees Health Program because those modifications were not part of the collective bargaining agreement.

If you have any questions regarding the contents of this analysis, please do not hesitate to contact my office (230-8293). Thank you.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

Enclosure

cc:

The Honorable Jake Corman
The Honorable Jay Costa
The Honorable Patrick Browne
The Honorable Vincent J. Hughes
The Honorable Mike Folmer
The Honorable Anthony H. Williams

The Honorable Dave Reed
The Honorable Frank Dermody
The Honorable William Adolph, Jr.
The Honorable Joseph Markosek
The Honorable Daryl D. Metcalfe
The Honorable Mark B. Cohen

Analysis of Collective Bargaining Agreement
AFSCME Council 13
(millions of dollars)

Year	Increase	General Fund	Motor License Fund	Other State Funds 1/	Federal Funds	All Funds
FY 2016-17	General Pay or Step Increase	\$13.2	\$8.4	\$12.7	\$5.3	\$39.6
	Healthcare Contribution	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
	Total	\$13.2	\$8.4	\$12.7	\$5.3	\$39.6
FY 2017-18	General Pay or Step Increase	\$36.4	\$23.3	\$35.1	\$14.6	\$109.4
	Healthcare Contribution	\$4.8	\$3.1	\$4.7	\$2.2	\$14.8
	Total	\$41.2	\$26.4	\$39.8	\$16.8	\$124.2
FY 2018-19	General Pay or Step Increase	\$66.9	\$42.8	\$64.7	\$26.8	\$201.2
	Healthcare Contribution	\$8.2	\$5.4	\$8.0	\$3.7	\$25.3
	Total	\$75.1	\$48.2	\$72.7	\$30.5	\$226.5
Grand Total		\$129.5	\$83.0	\$125.2	\$52.6	\$390.3

1/ Other State Funds include Lottery, State Stores, and restricted accounts, augmentations and other funds.