



INDEPENDENT FISCAL OFFICE

August 12, 2019

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 Employee Relations Act.

The IFO submits this analysis to the General Assembly in fulfillment of that obligation. 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 July 1, 2019:

- Total annual wage base of affected workforce: \$1,383 million.
- Total number of full-time equivalent employees covered: 30,307.
- Benefit rate: weighted-average rate of 44.0%. 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.
- Four general pay increases effective July 2019 (3.00%), October 2020 (2.00%), October 2021 (2.50%) and October 2022 (2.50%).
- Three step increases effective April 2020 (2.25%), April 2021 (2.25%) and January 2023 (2.25%).
- Three increases in the biweekly employer healthcare contribution, from \$486 to \$502 (July 2020), from \$502 to \$519 (July 2021) and then to \$536 (July 2022). This biweekly change represents annual incremental increases of \$416 (FY 2020-21), \$442 (FY 2021-22) and \$442 (FY 2022-23) in employer healthcare contributions per employee.

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 a turnover factor. This factor adjusts for the reduction in wages paid due to workforce turnover, as 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 employees and wage rates do not change), this churning reduces total wages paid in the baseline scenario. These savings are entirely separate from the new agreement and should not be used to offset the incremental costs that result from the agreement.

The turnover factor (-1.75 percent) is based on AFSCME workforce data for the past ten fiscal years, and the analysis assumes these trends would continue during the years covered by the agreement.

Based on these data, the general methodology for the projected increase in wage and benefit payments due to the agreement is as follows (see Table 1):

- Establish the baseline or “no agreement” scenario. The original total wage base for FY 2019-20 is \$1,383 million, and \$1,992 million if benefits are included. Apply a -1.75 percent turnover factor each year to reflect the declining wage base.
- Compute the incremental impacts by applying the negotiated general pay increases and step increases to that baseline, taking account of the effective dates.
- Compute the sum of the incremental impacts. This represents the net cost of the agreement relative to the baseline scenario. (See footnotes in Table 1 for a description of the computations.)

For the higher employer contributions for healthcare benefits, the analysis applies the annual dollar increase to the number of employees.

Table 2 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 for the current fiscal year and subsequent three fiscal years. Those costs can be summarized as follows:

- For the General Fund, the total costs are \$23.3 million (FY 2019-20), \$51.9 million (FY 2020-21), \$82.9 million (FY 2021-22) and \$111.1 (FY 2022-23). The four-year total is \$269.3 million.
- For the Motor License Fund, the total costs are \$20.7 million (FY 2019-20), \$46.5 million (FY 2020-21), \$74.4 million (FY 2021-22) and \$99.7 (FY 2022-23). The four-year total is \$241.3 million.
- For Other State Funds, the total costs are \$16.2 million (FY 2019-20), \$36.0 million (FY 2020-21), \$57.4 million (FY 2021-22) and \$76.9 (FY 2022-23). The four-year total is \$186.4 million.
- For Federal Funds, the total costs are \$11.1 million (FY 2019-20), \$25.1 million (FY 2020-21), \$40.1 million (FY 2021-22) and \$53.9 (FY 2022-23). The four-year total is \$130.2 million.
- For All Funds, the total costs are \$71.3 million (FY 2019-20), \$159.4 million (FY 2020-21), \$254.9 million (FY 2021-22) and \$341.7 (FY 2022-23). The four-year total is \$827.3 million.

The All Funds column represents the total impact of the agreement. The Federal Funds column represents the estimated amounts expected to be reimbursed through federal funds.

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The IFO bases this analysis on material transmitted by the Office of Administration on July 20, 2019. 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.

If you have any questions regarding the contents of this analysis, please do not hesitate to contact my office (717-230-8293). Thank you.

Sincerely,



Matthew J. Knittel
Director, Independent Fiscal Office

Enclosure

cc:

The Honorable Jake Corman
The Honorable Jay Costa
The Honorable Patrick M. Browne
The Honorable Vincent J. Hughes
The Honorable John R. Gordner
The Honorable Anthony H. Williams

The Honorable Bryan Cutler
The Honorable Frank Dermody
The Honorable Stan Saylor
The Honorable Matthew D. Bradford
The Honorable Kerry A. Benninghoff
The Honorable Jordan Harris

Table 1
Analysis of Collective Bargaining Agreement
AFSCME Council 13
 millions of dollars

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	
Less: Turnover of 1.75% 1/		-\$34.8	-\$34.2	-\$33.6	
Baseline Salaries & Benefits 2/	\$1,992.2	1,957.4	1,923.2	1,889.5	
3.00% July 2019 GPI	59.8 3/	58.7 3/	57.7	56.7	
2.25% April 2020 Step	11.5 4/	45.4 5/	44.6	43.8	
2.00% Oct 2020 GPI		30.9 6/	40.5	39.8	
2.25% April 2021 Step		11.8	46.5	45.7	
2.50% Oct 2021 GPI			39.6	51.9	
2.50% Oct 2022 GPI				39.9	
2.25% Jan 2023 Step				24.5	
Increase: Salaries & Benefits	71.3	146.8	228.9	302.3	
Increase: Health Care Costs		12.6	26.0	39.4	
Total Impact (All Funds)	71.3	159.4	254.9	341.7	\$827.3

1/ Annual savings from the replacement of high-wage senior workers with less experienced lower wage workers (1.75 percent multiplied by the prior year wage base). These savings would have been realized regardless of the new bargaining agreement and should not be attributed to the agreement. Source: Office of Administration.

2/ Estimated base salaries and benefits as of July 1. Assumes no change in total complement and includes benefits that are tied to wages.

3/ Baseline Salaries & Benefits for the relevant fiscal year multiplied by the 3 percent general pay increase (GPI).

4/ Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2019 GPI, multiplied by the 2.25 percent step increase. The total is prorated for the April 2020 effective date.

5/ Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2019 GPI, multiplied by the 2.25 percent step increase.

6/ Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2019 GPI, plus the impact of the 2.25 percent April 2020 step increase, multiplied by the 2.0 percent GPI. The total is prorated for the October 2020 effective date.

Table 2
Analysis of Collective Bargaining Agreement
AFSCME Council 13

millions of dollars

	General Fund	Motor License Fund	Other State Funds 1/	Federal Funds	All Funds
FY 2019-20					
General Pay and Step Increase	\$23.3	\$20.7	\$16.2	\$11.1	\$71.3
Healthcare Contribution	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	23.3	20.7	16.2	11.1	71.3
FY 2020-21					
General Pay and Step Increase	47.9	42.7	33.3	22.9	146.8
Healthcare Contribution	<u>4.0</u>	<u>3.8</u>	<u>2.6</u>	<u>2.2</u>	<u>12.6</u>
Total	51.9	46.5	36.0	25.1	159.4
FY 2021-22					
General Pay Increase	74.7	66.5	51.9	35.7	228.9
Healthcare Contribution	<u>8.2</u>	<u>7.8</u>	<u>5.5</u>	<u>4.5</u>	<u>26.0</u>
Total	82.9	74.4	57.4	40.1	254.9
FY 2022-23					
General Pay and Step Increase	98.7	87.9	68.6	47.1	302.3
Healthcare Contribution	<u>12.5</u>	<u>11.9</u>	<u>8.3</u>	<u>6.8</u>	<u>39.4</u>
Total	111.1	99.7	76.9	53.9	341.7
TOTAL	269.3	241.3	186.4	130.2	827.3

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