INDEPENDENT FISCAL OFFICE

December 14, 2023

The Honorable Kim L. Ward
President Pro Tempore
Senate of Pennsylvania
292 Main Capitol Building
Harrisburg, PA 17120

The Honorable Joanna E. McClinton
Speaker
Pennsylvania House of Representatives
139 Main Capitol Building
Harrisburg, PA 17120

Dear President Pro Tempore Ward and Speaker McClinton:

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 the Pennsylvania State Education Association (PSEA), Non-Tenured Teachers Unit. (See Table 1 and Methodology on the last page.) The analysis uses the following parameters and data obtained from the state accounting system as of July 24, 2023:

- Annual wage base of affected workforce: $1.8 million.
- Number of full-time equivalent employees covered: 21.
- Benefit rate: weighted-average rate of 42.8%.
- Four general pay increases effective July 2023 (4.00%), July 2024 (3.75%), July 2025 (3.50%) and July 2026 (3.50%).
- Four step increases effective January 2024 (2.00%), January 2025 (1.50%), January 2026 (1.25%) and January 2027 (1.00%).
- Four increases in the biweekly employer healthcare contribution, from $536 to $590 (July 2023), from $590 to $649 (July 2024), from $649 to $668 (July 2025) and then to $688 (July 2026). This biweekly change represents annual increases of $1,404 (FY 2023-24), $1,534 (FY 2024-25), $494 (FY 2025-26) and $520 (FY 2026-27) in employer healthcare contributions per employee.

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:

- There is no impact on the **General Fund**, **Motor License Fund** or **Federal Funds** over the four-year period.
- For **Other State Funds**, total costs are $0.2 million (FY 2023-24), $0.3 million (FY 2024-25), $0.5 million (FY 2025-26) and $0.6 million (FY 2026-27). The four-year total is $1.6 million.

The IFO bases this analysis on data files transmitted by the Office of Administration on December 12, 2023. 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 (contact@ifo.state.pa.us).

Sincerely,

Matthew J. Knittel
Director, Independent Fiscal Office

Enclosures

cc:

The Honorable Joe Pittman	The Honorable Matthew D. Bradford
The Honorable Jay Costa	The Honorable Brian Cutler
The Honorable Scott Martin	The Honorable Jordan A. Harris
The Honorable Vincent J. Hughes	The Honorable Seth M. Grove
The Honorable Ryan P. Aument	The Honorable Dan L. Miller
The Honorable Christine M. Tartaglione	The Honorable Timothy J. O'Neal
Secretary Uri Z. Monson	Secretary Neil R. Weaver

Table 1
Analysis of Collective Bargaining Agreement
Pennsylvania State Education Association (PSEA), Non-Tenured Teachers

Fiscal Year	2023-24	2024-25	2025-26	2026-27	Total
Less: Turnover of 1.30%[1]		$0.0	$0.0	$0.0	
Baseline Salaries & Benefits[2]	**$2.5**	**2.5**	**2.4**	**2.4**	
4.00% July 2023 GPI	0.1[3]	0.1[3]	0.1	0.1	
2.00% Jan 2024 Step	0.0[4]	0.1[5]	0.1	0.1	
3.75% July 2024 GPI		0.1[6]	0.1	0.1	
1.50% Jan 2025 Step		0.0	0.0	0.0	
3.50% July 2025 GPI			0.1	0.1	
1.25% Jan 2026 Step			0.0	0.0	
3.50% July 2026 GPI				0.1	
1.00% Jan 2027 Step				0.0	
Increase: Salaries & Benefits	**0.1**	**0.3**	**0.4**	**0.5**	
Increase: Health Care Costs	**0.0**	**0.1**	**0.1**	**0.1**	
Total Impact (All Funds)	**0.2**	**0.3**	**0.5**	**0.6**	**$1.6**

Note: Figures in millions of dollars.

1 Annual savings from the replacement of high-wage senior workers with less experienced lower wage workers (1.30% 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.

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 4.00% general pay increase (GPI).

4 Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2023 GPI, multiplied by the 2.00% step increase. The total is prorated for the January 2024 effective date.

5 Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2023 GPI, multiplied by the 2.00% step increase.

6 Baseline Salaries & Benefits for the relevant fiscal year, plus the impact of the July 2023 GPI, plus the impact of the 2.00% January 2024 step increase, multiplied by the 3.75% GPI.

Table 2
Analysis of Collective Bargaining Agreement
Pennsylvania State Education Association (PSEA), Non-Tenured Teachers

	General Fund	Motor License Fund	Other State Funds	Federal Funds	All Funds
FY 2023-24					
General Pay and Step Increase	$0.0	$0.0	$0.1	$0.0	$0.1
Healthcare Contribution	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.2	0.0	0.2
FY 2024-25					
General Pay and Step Increase	0.0	0.0	0.3	0.0	0.3
Healthcare Contribution	0.0	0.0	0.1	0.0	0.1
Total	0.0	0.0	0.3	0.0	0.3
FY 2025-26					
General Pay and Step Increase	0.0	0.0	0.4	0.0	0.4
Healthcare Contribution	0.0	0.0	0.1	0.0	0.1
Total	0.0	0.0	0.5	0.0	0.5
FY 2026-27					
General Pay and Step Increase	0.0	0.0	0.5	0.0	0.5
Healthcare Contribution	0.0	0.0	0.1	0.0	0.1
Total	0.0	0.0	0.6	0.0	0.6
Total	**0.0**	**0.0**	**1.6**	**0.0**	**1.6**

Note: Figures in millions of dollars. Other State Funds include Lottery, State Stores, restricted accounts, augmentations and other funds. The Federal Funds column represents the estimated amounts expected to be reimbursed through federal funds. The All Funds column represents the total impact of the agreement.

Source: Share of the impact distributed to each fund from the Office of Administration.

METHODOLOGY

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 is based on workforce data for the specified union over the past ten fiscal years, and the analysis assumes these trends would continue during the years covered by the agreement.

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 based on current payroll and the average benefit rate. 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 45% implies that those costs increase by 45 cents for each dollar increase in wages.
- Apply a turnover factor in each year of the contract to reflect the declining wage base.
- Compute the incremental impacts by applying the negotiated general pay increases and step increases, 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, which is assumed to remain constant over the years covered by the agreement.