



Pennsylvania Senate Appropriations Committee

Senator Pat Browne
Chairman

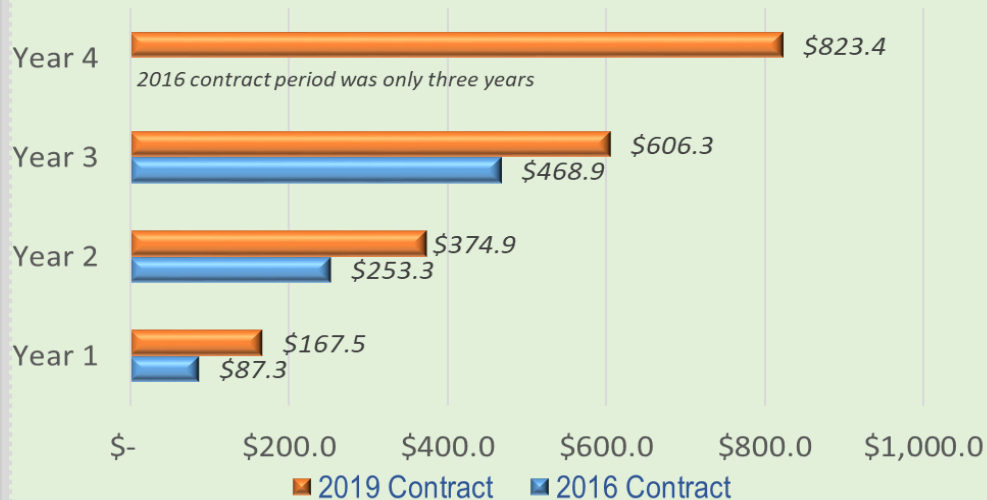


Monthly Report August 2019

Administration Reaches Contract Deal with Largest Unions *Increases Costs by Nearly \$2 Billion over Four Years*

The Administration announced recently it reached agreement with the Commonwealth's largest unions on a four-year contract, which the Senate Appropriations Committee estimates will increase costs by nearly \$2 billion over the life of the contract. The agreement with the American Federation of State, County, and Municipal Employees (AFSCME) and the Service Employees International Union (SEIU) provides total wage increases of 16.75% from July of this year through June 2023. These agreements provide significantly higher wage increases compared to the last collective bargaining agreements with a four-year term reached in 2011. Those agreements provided total wage increases of 10.75%.

Senate Estimate of Wolf Administration Union Contract Costs (in millions)



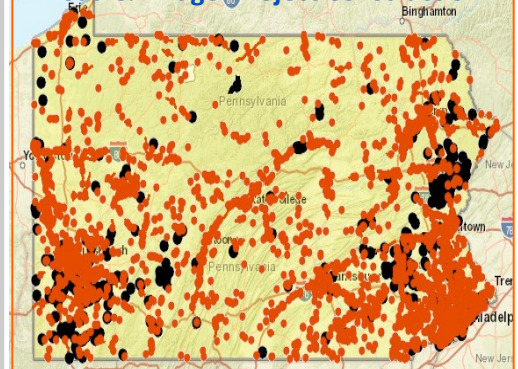
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Road & Bridge Project Construction



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Administration Reaches Contract Deal with Largest Unions Continued.....

Announced Wage Increases

July 1, 2019:	3.00%
April 1, 2020:	2.25%
October 1, 2020:	2.00%
April 1, 2021:	2.25%
October 1, 2021:	2.50%
October 1, 2022:	2.50%
January 1, 2023:	2.25%

In the past, the agreement with the state's largest unions has typically become the wage pattern for most other unions operating in state government, with the exception of public safety unions. AFSCME represents about 30,000 employees in the state's workforce, and SEIU covers about 10,600 employees. About 5,000 other union employees are expected to fall under contract terms that are similar to these agreements. Historically, the AFSCME agreement has also been applied to the Commonwealth's 12,500 management employees. The Administration indicates this will occur again during this contract cycle.

Using a static analysis approach, Senate Appropriations projects the agreement for AFSCME, SEIU and all other pattern unions and management employees will increase costs by nearly \$2 billion over the four-year agreement, including the impact to salary-sensitive benefit costs. This agreement is more generous than the last collective bargaining agreement in 2016 since salary increases are provided at an earlier point in the contract and at higher amounts when compared to the last agreement. Senate Appropriations estimated the three-year cost of the last agreement at \$810 million; as context, the first three years of this agreement are projected to increase costs by about \$1.1 billion. The Independent Fiscal Office will provide individual cost estimates for each union contract over the coming weeks, rather than a single projection as is provided here.

Contracts for State Police Troopers and Correctional Officers are separate from the AFSCME agreement and do not expire until June 2020.

Contract	Cumulative Salary Increase	Average Annual Increase	Contract Term
2011 Contract (4 Years)	10.75%	2.7%	July 1, 2011 - June 30, 2015
2015 Contract (1 Year)	2.25%	2.25%	July 1, 2015 - June 30, 2016
2016 Contract (3 Years)	11.75%	3.9%	July 1, 2016 - June 30, 2019
2019 Contract (4 Years)	16.75%	4.2%	July 1, 2019 - June 30, 2023

Retiree Health Care Plan Changes Save \$240 Million Over Three Years

The Commonwealth recently announced changes to the retiree health care plan (REHP) that is offered to Executive Branch employees. The Commonwealth accepted a bid from Aetna to provide an open access Medicare Advantage PPO effective January 1, 2020. All Medicare-eligible members will be enrolled in this plan.

With the open access Aetna Medicare Advantage PPO, providers do not have to be in Aetna's network. The benefit is the same whether the provider is part of the Aetna PPO network or out of network and accepts original Medicare. This means there will be minimal provider disruption since the doctors and hospitals who currently participate in the REHP Medicare Advantage HMO already accept original Medicare.

The decision to contract with Aetna was based on several factors. The cost savings of over \$240 million over the next three fiscal years was significantly higher than would have been possible with the current plan options. In addition, the change will reduce the Commonwealth's Governmental Accounting Standards Board (GASB) liability by \$2 billion, which is vitally important to the long-term viability of the REHP. The latest actuarial valuation of the Commonwealth's retiree health care plan placed a \$20.1 billion net Other Post-Employment Benefit liability on the program.

The Office of Administration and the Pennsylvania Employees Benefit Trust Fund (PEBTF) will provide written communications and on-site meetings to educate members on the upcoming changes.

New Fiscal Year Revenues Show Resilience

The Department of Revenue has not yet released its monthly distribution of the Official General Fund Revenue Estimate. Therefore, July 2019 revenue collections can be compared only to last year's revenues and not to a monthly estimate.

Total General Fund revenue for July 2019 was \$2.33 billion. Revenue collections were \$90.8 million more than July 2018, which is a 4.1% increase over last year. There are two circumstances that require additional explanation when comparing this year's July revenue collections to last year's. First, this year's sales and use tax collections are lower than they would have been due to a \$115.3 million tobacco debt service transfer. Second, July 2019 included five large personal income tax (PIT) withholding payment dates (i.e. Wednesdays), whereas July 2018 included only four such dates.

Fiscal Year 2019-20 vs. Fiscal Year 2018-19:

- Total General Fund revenues were \$90.8 million, or 4.1%, higher than last year at this time.
- General Fund tax revenue was \$88 million, or 4%, higher than last year.
- Corporate net income tax collections were \$18.4 million, or 17.5%, higher than July 2018 collections.
- Sales and use tax (SUT) collections were \$86 million, or 8.5%, lower than FY 2018-19 collections as of July.
 - ***Sales and use tax collections for July were \$115.3 million lower than they would have been otherwise due to the correction of an administrative oversight, which required the Wolf Administration to make up a May 2019 tobacco debt service transfer using July revenues.***
 - General (i.e. non-motor) SUT collections were 10.4% lower than last year.
 - SUT collections on motor vehicle sales were 3.9% higher than July 2018.
- Personal income tax (PIT) collections exceeded last year's collections by \$164.6 million, or 19.2%, much of which is attributable to there being one additional withholding payment date in July 2019 (i.e. five Wednesdays in July 2019 as opposed to four Wednesdays in July 2018).
 - PIT collections from withholding were \$150.1 million, or 18.9%, higher than July 2018 collections.
 - Non-withheld PIT collections (i.e. estimated and annual payments) were \$14.5 million, or 24.9%, higher.
- Realty transfer tax (RTT) collections of \$21.1 million were \$11.6 million, or 35.6%, less than last year.
 - \$40 million from RTT was transferred in July 2019 to the Housing Affordability and Rehabilitation Enhancement Fund (PHARE) pursuant to Act 13 of 2019.
 - \$25 million was transferred in July 2018 to PHARE pursuant to Act 58 of 2015.
 - Absent this additional transfer amount in July 2019, RTT revenues would have been about \$3.4 million higher than last year.
- Inheritance tax collections of \$98.5 million were ahead of last year by 15.7%.
- Cigarette tax collections of \$50.8 million were \$14.5 million, or 22.2%, less than July 2018.
- Non-tax revenues of \$34 million were \$2.8 million more than last year.

Motor License Fund:

- Motor License Fund revenues of \$223 million were \$8.5 million, or 3.7%, lower than July 2018 collections.

Special Education Funding Commission Reconstitution

The Special Education Funding Commission, which was originally established in Act 3 of 2012 to review and make recommendations regarding special education funding, is being reconstituted to review the current formula that determines special education payments to school districts.

Act 16 of 2019 (House Bill 1615), which was enacted in June, provides for the reconstitution of the commission no later than August 15, 2019. The law also specifies that the commission is to issue its report to the General Assembly no later than November 30, 2019.

The commission is comprised of 15 members which include: the chairman and minority chairman of the Education Committees in the Senate and House of Representatives, or their designees; two members from each of the four legislative caucuses, to be appointed by the President Pro Tempore of the Senate and the Speaker of the House of Representatives, in consultation with the Majority and Minority Leaders; the Secretary of Education, or a designee; the Secretary of the Budget, or a designee; and the Deputy Secretary of Elementary and Secondary Education, or a designee.

Under the law, the commission is provided with the power and duty to review and make findings and recommendations related to special education funding, consult with and utilize experts for assistance, receive input from interested parties, hold public hearings in different regions of the Commonwealth and issue a report of its findings.

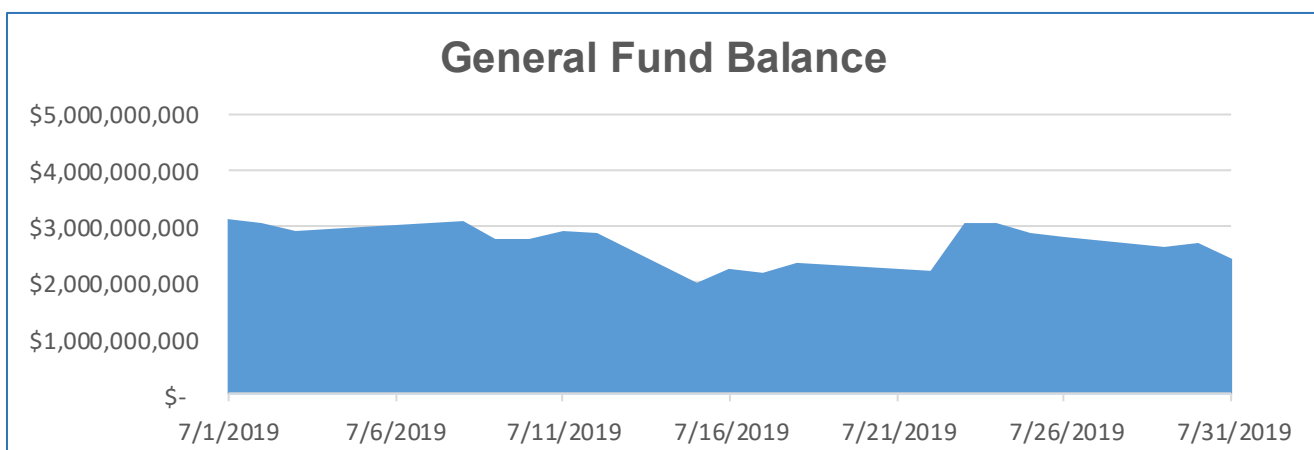
The current special education funding formula, one of the original commission's recommendations in 2013, was enacted and became effective for the 2014-15 fiscal year. The formula directs dollars to school districts that have the greatest need for additional resources based upon the cost of each special education student. The formula established three cost categories of special education costs and assigned a weight to each of these cost categories based upon information obtained in a survey conducted by the Independent Fiscal Office. The three cost categories and their corresponding weights are as follows:

- Category 1: Special education students costing between \$1 and \$24,999 - weight 1.51
- Category 2: Special education students costing between \$25,000 and \$49,999 - weight 3.77
- Category 3: Special education students costing \$50,000 or more - weight 7.46

In addition to these cost categories, the formula makes adjustments based upon the following school district specific factors:

- Market Value/Personal Income Aid Ratio (wealth)
- Equalized Millage Rate (tax effort)
- Sparsity/Size Ratio (makes adjustments for small, rural school districts)

A copy of the Special Education Funding Commission's 2013 Final Report can be found at the following web link: <https://senatorbrowne.com/wp-content/uploads/sites/37/2015/05/Special-Education-Funding-Commission-Report-121113.pdf>



Senate Appropriations Committee

Monthly Revenue Report

(\$ thousands)

REVENUE SOURCES	July 2019 Actual	July 2018 Actual	% Change vs. Prior Year
TOTAL - GENERAL FUND	2,329,154	2,238,365	4.1%
TOTAL - NON-TAX REVENUE	33,983	31,158	9.1%
TOTAL - TAX REVENUE	2,295,171	2,207,207	4.0%
TOTAL - Corporation Taxes	116,935	99,517	17.5%
Accelerated Deposits	1,159	(797)	
Corp. Net Income	93,092	74,722	24.6%
Gross Receipts	4,300	4,506	-4.6%
PURTA	408	0	
Insurance Premiums	17,530	20,651	-15.1%
Financial Institutions	445	436	2.1%
TOTAL - Consumption Taxes	1,019,780	1,118,040	-8.8%
Sales and Use	925,404	1,011,419	-8.5%
General (net of transfers)	783,004	874,305	-10.4%
Motor Vehicle Sales	142,400	137,114	3.9%
Cigarette Tax	50,771	65,296	-22.2%
Other Tobacco Products	10,949	10,358	5.7%
Malt Beverage	2,192	2,380	-7.9%
Liquor	30,464	28,587	6.6%
TOTAL - Other Taxes	1,158,456	989,650	17.1%
Personal Income	1,022,830	858,227	19.2%
Withholding	945,329	795,252	18.9%
Non-Withholding	77,501	62,975	23.1%
Realty Transfer	21,067	32,704	-35.6%
Inheritance & Estate	98,510	85,141	15.7%
Minor & Repealed	5,120	3,972	28.9%
Gaming	10,929	9,606	13.8%
TOTAL - MOTOR LICENSE FUND	223,046	231,564	-3.7%
TOTAL - Liquid Fuels Taxes	162,296	146,902	10.5%
Motor Carriers/IFTA	1,682	1,253	34.2%
Alternative Fuels	1,205	1,222	-1.4%
Oil Company Franchise	159,408	144,426	10.4%
Minor and Repealed	1	1	0.0%
TOTAL - Licenses, Fees & Other	60,750	84,661	-28.2%
Licenses and Fees	58,627	83,461	-29.8%
Other Motor Receipts	2,123	1,200	76.9%