2017/18
BUDGET BRIEFING
Report on Key Issues
HOUSE APPROPRIATIONS COMMITTEE (D)

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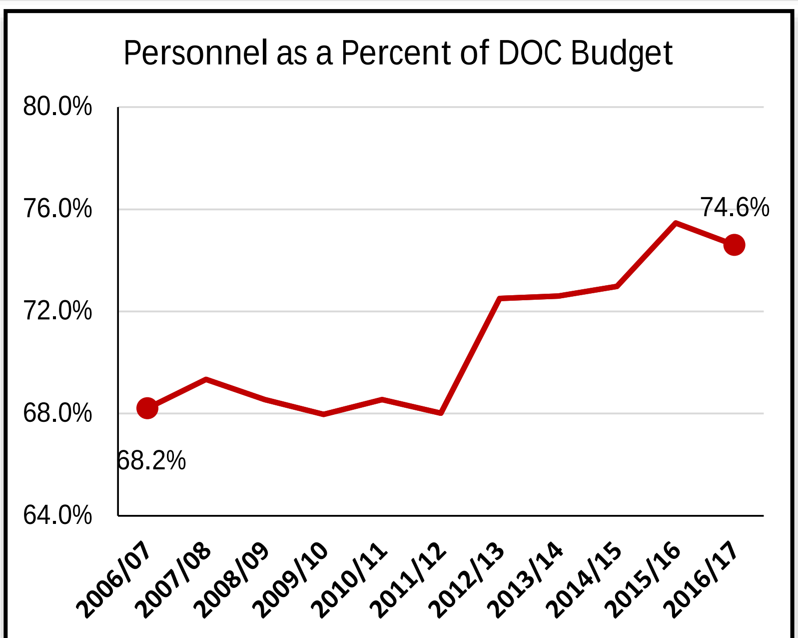
November 1, 2017

Understanding Corrections' Personnel Costs

It costs more today to pay state corrections employees, largely for reasons outside of the Department of Correction's control. Seventy-five cents of every taxpayer dollar spent by the department pays for personnel. Ten years ago, it was 68 cents.

Pennsylvania is not alone in this, as personnel expenditures drive state corrections costs in most states (***Vera, 2017***). In total, Pennsylvania paid $1.9 billion for corrections officers, other DOC personnel, and benefits in 2016/17.

This budget briefing looks closer at what goes into personnel expenditures and examines the factors driving the increase in personnel costs in the Department of Corrections over the past 10 years. It also explores how costs will change in the years to come. We conclude that personnel costs, and therefore total department spending, will likely continue to rise in the coming years unless a significant decrease in the filled complement brought on by decreased staffing needs occurs. Importantly, budget cuts alone could have the reverse effect.



Source: Actual expenditures in fiscal year

What are personnel expenditures?

Personnel expenditures include three categories of spending: payroll, variable benefits, and fixed benefits. **Payroll** includes salaries, wages, and other personnel costs like overtime and leave payout. Salary and wage are mostly determined by collective bargaining, whereas other personnel costs are affected by day-to-day staffing choices and circumstances.

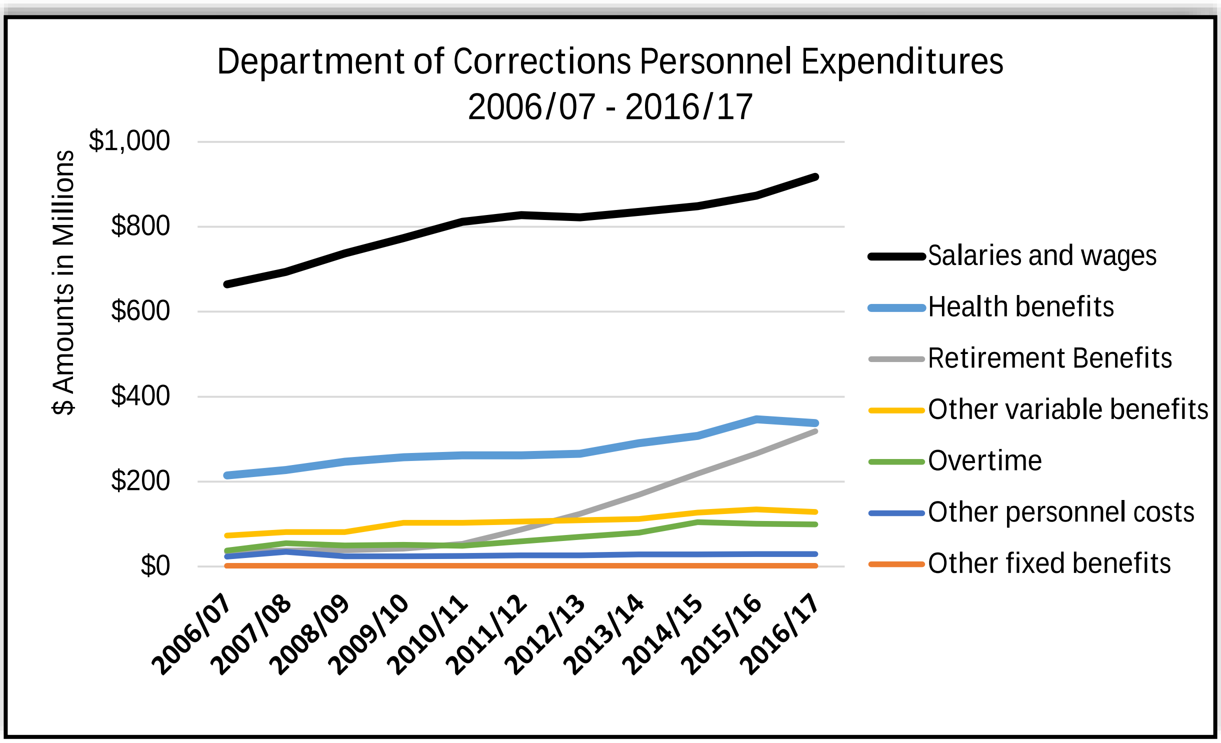
Variable benefits are those that increase in relation to payroll because they are calculated as a percentage of payroll. For example, when salary increases, so does the employer share of pension, Medicare, and Social Security benefits. Health insurance and life insurance are **fixed benefits** and are calculated based on the number of pay periods worked.

What's changed over the past 10 years?

In 2006/07, the commonwealth spent 58 cents on benefits for every dollar of salaries and wages in the Department of Corrections. The cost of salaries and wages plus the one largest category of benefits (health benefits) made up the vast majority of all personnel spending. Shown in figure 2, below, these two stand out well above all other lines of personnel spending.

Over the past 10 years, retirement benefit costs grew significantly (more than 9 times greater), as did overtime (nearly 3 times greater) and health benefits (1.6 times greater). Salaries and wages grew about 3 percent annually, but the cost of benefits grew even faster. As a result, in 2016/17, **for every dollar spent on salary or wages, there is another dollar matching it for the cost of benefits.** (See appendix A for personnel expenditure tables by year.)

Figure 2.



Source: Total amount in fiscal year, SAP, Payroll Posting Report.

Total personnel expenditures have ballooned in the past 10 years, increasing $782 million or 74 percent (48 percent in 2016 dollars adjusted for inflation). With an annual growth rate more than twice operations and fixed assets, personnel is the largest and fastest growing component of the Department of Corrections' budget.

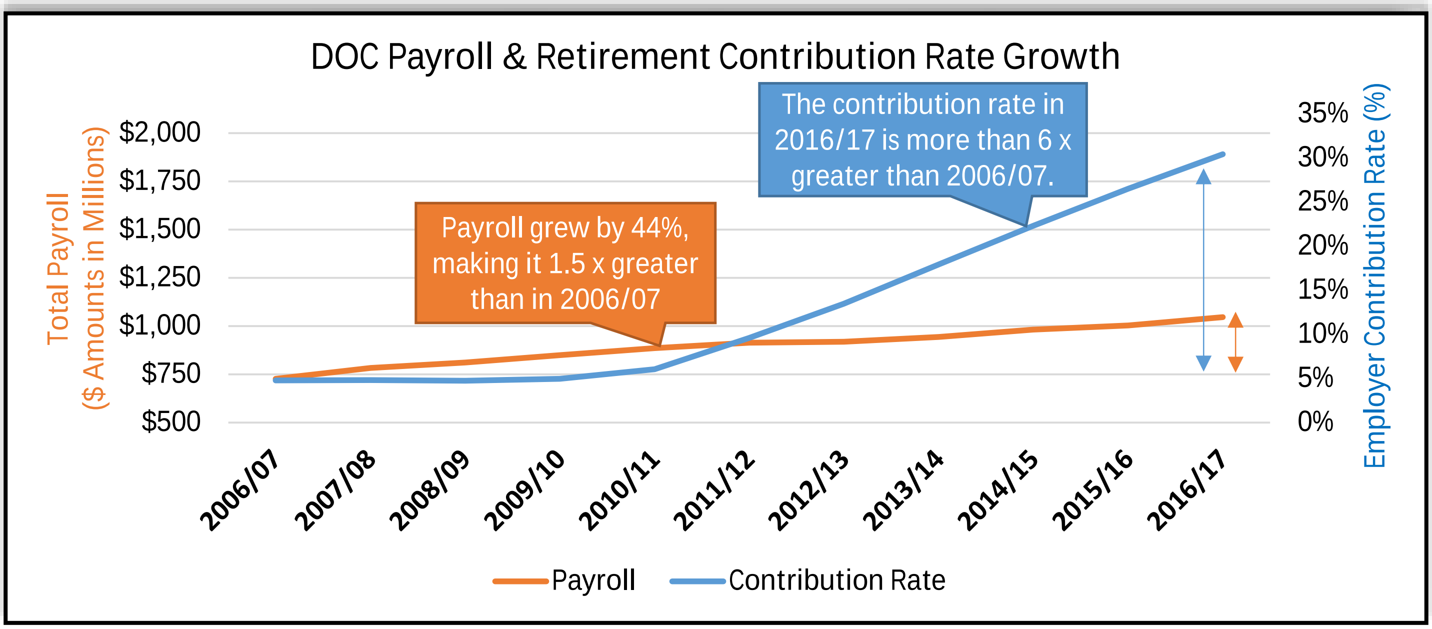
Retirement Benefits

Retirement benefit costs represent the single largest component of DOC personnel expenditure increases over the past 10 years – $284 million, or 36 percent, of the $782 million increase. Most notably, retirement benefits rose from three percent of all personnel expenditures in 2006/07 to 17 percent in 2016/17.

Retirement benefit expenditures are dependent on two factors: payroll (which is largely salary); and the contribution rate, which varies by retirement class. As shown in Figure 3, growth in the employer contribution rate is the primary driver for retirement benefit expenditure increases.[1]

[1] For this analysis a composite rate for the department is calculated by dividing state employer contributions for retirement benefits by payroll.

Figure 3.



Source: Total amount in fiscal year, SAP, Payroll Posting Report. Contribution rate calculated.

Why the contribution rate increased

This increase in retirement benefit costs is largely due to a much needed return to making the actuarially required contributions (ARC) mandated by Act 120 in 2010. Pennsylvania circumvented full payment of the ARC for its employees over a decade and a half, effectively borrowing money from the state retirement funds to balance budgets. This "debt" compounded as the Great Recession trampled investment returns. While policymakers were able to postpone resolution of a chronic budget deficit, we are now paying a heavy price.

The commonwealth is finally on a predictable debt repayment plan but prior payment deferrals have garnered costs tantamount to interest and are unavoidable. As a rule of thumb, Pennsylvania's repayment costs for prior "debt" are expected to average between roughly 75 and 85 percent of retirement benefit expenditures for state agency employees over nearly two decades. Also, the recently enacted state retirement benefit reductions under Act 5 of 2017 will not offset the debt. Pennsylvania must pay its bill and cannot reform its way out of this obligation.

Although Act 5 established a limit to the percent of voluntary overtime that may be included in the retirement benefit calculation, Act 5 exempted corrections officers from participation in the new hybrid plans and deferred compensation plan, forgoing estimated savings to the department of 6 to 23 percent for officers who might have selected one of the new plans.

Impact on Corrections' expenditures

Largely because of this, the Department of Corrections' employer contribution rate increased from 5 percent of payroll in 2006/07 to 30 percent in 2016/17. Payroll also grew (including salaries and overtime), but payroll growth alone would have resulted in a mere $15 million increase in retirement benefit expenditures, just 5 percent of the actual expenditure increase over the 10-year period.

The sharp uptick in retirement benefit expenditures beginning in 2010 coincides with the start of a phased-in return to full payment of the ARC under Act 120. In total, 93 percent of the increase in retirement benefit expenditures from 2006/07 to 2016/17 occurred after 2010.[2]

[2] For a comprehensive look at the state retirement system, please see recent publications on pensions available on the committee website: http://www.pahouse.com/HACD/Publications

Salaries and Wages

From 2006/07 to 2016/17, salaries and wages increased $253 million, making it the second largest component (32 percent) of the increase in personnel expenditures during this period. Growth in salaries and wages also contributed to increases in variable benefits (including retirement benefits, Social Security, and Medicare) for which the state contributes a percentage of total payroll.

Collective bargaining agreements determine most pay increases in Corrections. The contracts provide for longevity increases (for corrections officers after five years of service), step increases, and general salary increases. Over the past 10 years, corrections officers' union salaries grew faster than other employees within the department. **However, officers' median salaries in the initial years were noticeably smaller and, ultimately, ended the decade in line with other DOC employees.**

Collective Bargaining

The corrections officers' union represents two-thirds (67 percent) of the department's 15,000 employees under what is commonly referred to as the **H-1 bargaining unit.** Another 30 percent are part of AFSCME (10 percent) or SEIU (8 percent), or are not represented by collective bargaining groups (management and trainees, 12 percent). Other unions represent the balance of the DOC workforce.

AFSCME, SEIU and the officers' union (PSCOA), are the largest collective bargaining groups for DOC employees and in the commonwealth overall; together they represent the majority of all state employees.

Members of the officers' union, compared to members of AFSCME and SEIU, received larger and more frequent salary increases during the 10-year period. PSCOA negotiated general salary increases totaling 26 percent, while AFSCME and SEIU received increases totaling 20 percent. The difference came in the past five years including the 2011 and 2014 arbitration awards under the Corbett administration. From 2012 to 2017, all three groups received smaller annual salary increases than in the previous five years, but the officers' union received an average annual increase of 2.4 percent, while AFSCME/SEIU received just 1.4 percent per year. (See Appendix B for complement and collective bargaining tables by year.) **Again, officers' median salaries in the initial years were noticeably smaller and, ultimately, ended the decade in line with other DOC employees.**

In a national analysis of corrections costs, Pennsylvania (along with Rhode Island and California) was highlighted for this pattern of negotiated contracts contributing to expenditure growth in corrections.

Median Salary

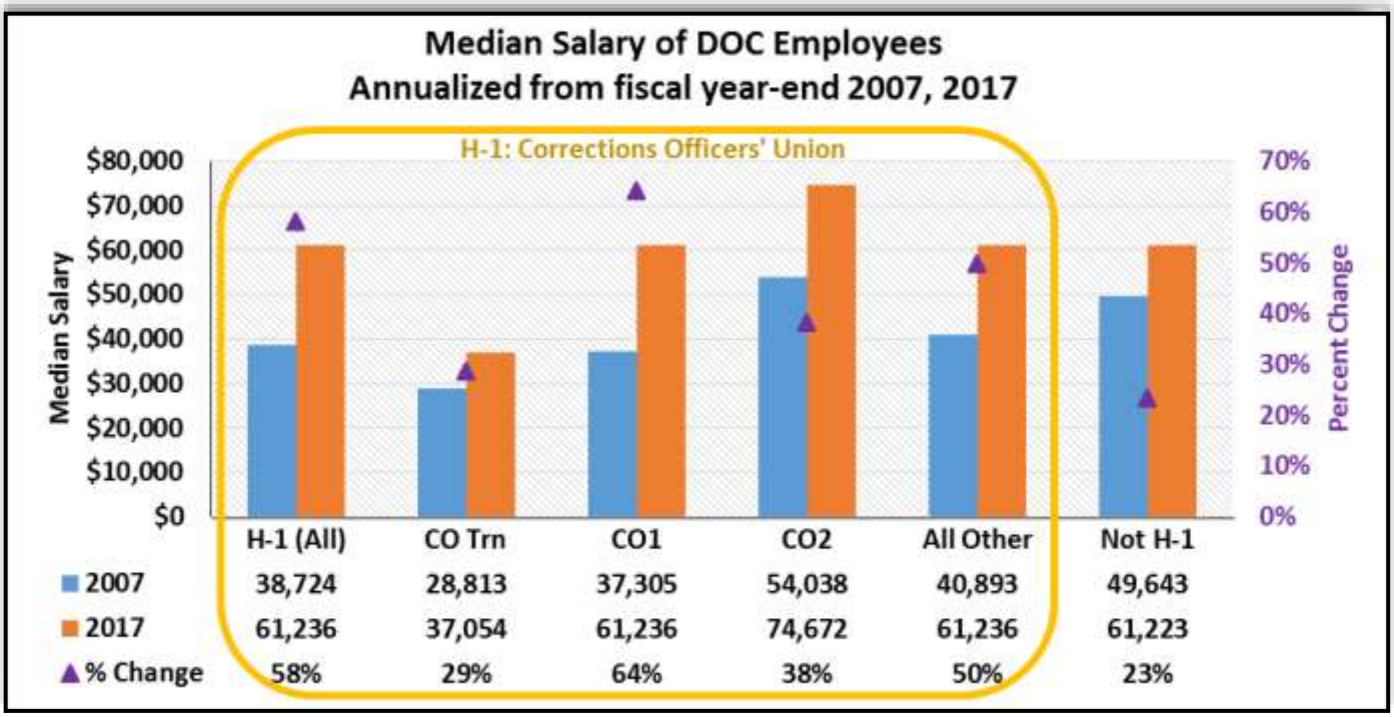
Another way to understand how corrections employee salaries have changed over time is to look at what the typical officer or non-uniformed employee takes home as a base salary. For that, we look at median salary, not including overtime or benefits.[3] The overall impact of general salary increases, longevity increases, step increases, and changes to the mix of newer and more senior employees within the complement are all reflected in the median salary.

Shown in Figure 4 (page 5), the median salary for members of the corrections officers' union in 2007 was $39,000, by 2017 it was $61,000 (58% increase, or 5.8% on average per year). By comparison, the median salary for DOC employees in other unions and those not represented by a union went from $50,000 to $61,000 (23% increase, or 2.3% on average per year).

It is also interesting to note the variation between different types of employees within the officers' union. For example, among the officers' union, median salary for officers in training grew the least over the 10-year period (29% increase), while median salary for the position of Corrections Officer 1 grew the most (64% increase).

[3]Median salary is calculated from annualized salaries for filled positions on the last day of the fiscal year, SAP, Complement Summary Report.

Figure 4.



Source: Salary and wage expenditures for filled positions, SAP, Complement Summary Report

Officer Pay in other States

The commonwealth is in line with other large northeastern states in officer pay, although compared to corrections officers nationwide, wages in Pennsylvania are above average (see map on page 6).

According to wage data collected by the Bureau of Labor Statistics, 2016 average annual wages for corrections officers in Pennsylvania ranked in the 78th percentile nationwide, or 11th out of 48 states and U.S. territories (including Washington D.C.) that reported data. At $50,380, Pennsylvania falls squarely in the upper third of states, with wages ranging from $47,000 to more than $70,000 (in California and New Jersey). However, Pennsylvania is in line with neighboring states in the northeast as well as Michigan and Maryland.

On the lower end of spending, most states with corrections officer wages ranking in the bottom third (less than $35,000) are clustered in the south. **It is important to note that BLS data for corrections officers includes all state, federal, county, and privately contracted correctional officers, which is a broader group than the each state's department of corrections employees alone.**

In comparison to officer wages, the same analysis of average wages for all occupations puts Pennsylvania near the middle: 21st out of 54 states and U.S. territories (including Washington D.C.) that reported data. The geographic clustering of low wage states in the south is not repeated for all occupations. While there are still more states ranking in the bottom third in the south, they span more broadly across the Midwest and Western regions.

An overall review of average wages over time shows that the pay for Pennsylvania corrections officers grew at the same rate as the total for wages of all occupations from 2005 to 2015. The average wage grew for officers in Pennsylvania by a greater percent than other states, particularly from 2010 to 2015, but it did not outpace wage growth for other types of workers within the commonwealth. (Note: By aggregating average wages for all occupations we miss variation between other types of work, including where wages are growing faster or slower.)

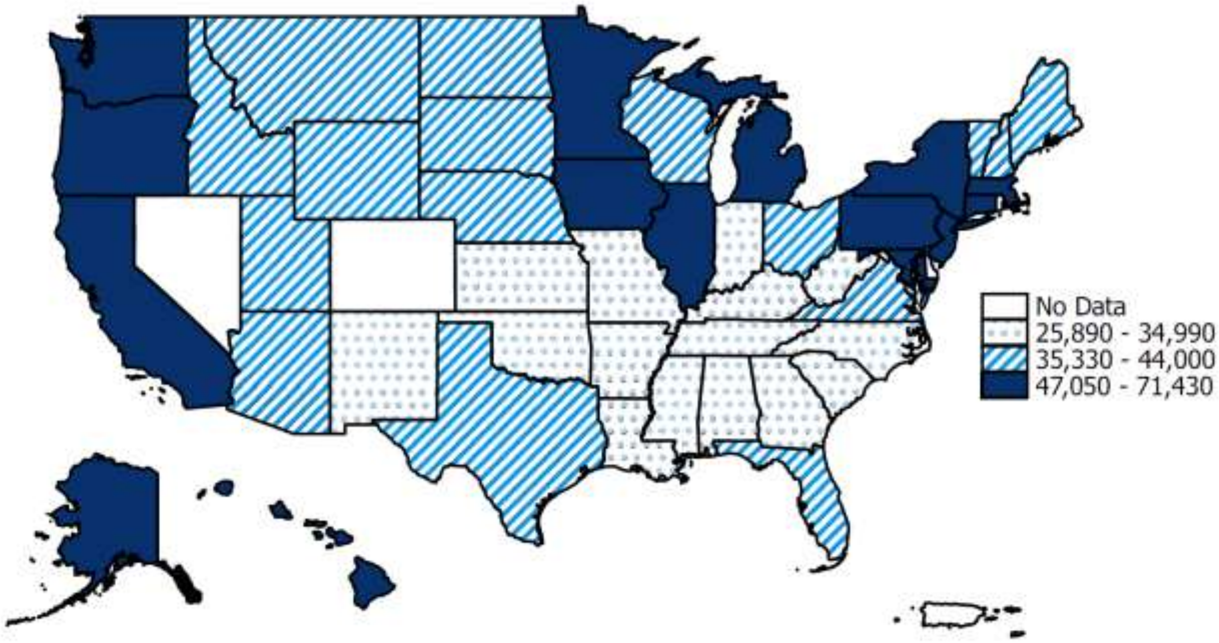
The Bureau of Labor Statistics collects data on wages in each state for more than 800 occupations. It **does not** include benefits or overtime in the definition of wages. Relative to the full range of personnel expenditures analyzed in this briefing, the BLS data comparison across states and occupations includes what we would classify as salaries and wages.

Figure 5.

Average Annual Wage of Correctional Officers, 2016

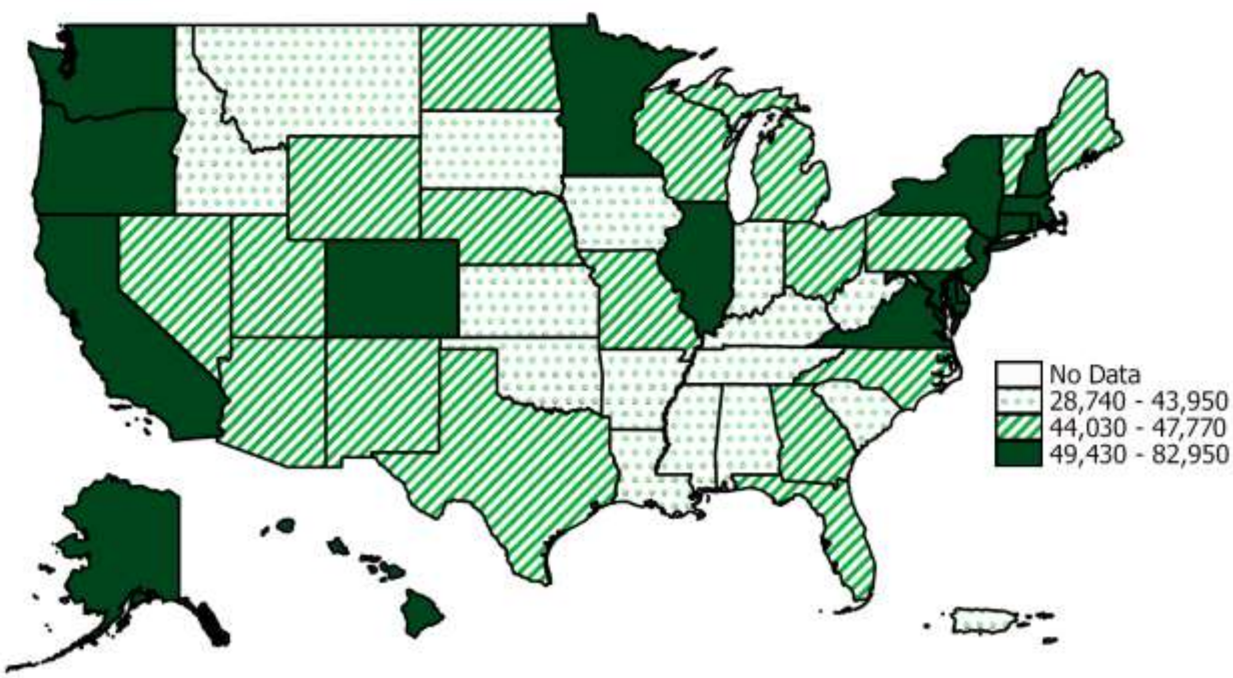
Pennsylvania corrections officers make $50,380 (without overtime or benefits), which ranks 11th out of 48 states and U.S. territories, including Washington D.C., that reported data.

Data for officer pay includes ALL state, county, federal, and private corrections officers.



Average Annual Wage of All Occupations, 2016

By comparison, Pennsylvania ranks near the middle for the average wage of all occupations, which is $47,540 in the commonwealth (without overtime or benefits). PA is 21st out of 54 states and U.S. territories, including Washington D.C., that reported data.



Data Source: Bureau of Labor Statistics, Occupational Employment Statistics
Map By: House Appropriations Committee (D), 2017

Health Benefits

Healthcare is the largest category of personnel expenditures after salary and the largest benefit overall. Active and annuitant health benefits increased 5 percent annually from 2006/07 to 2016/17, making up $123 million (16 percent) of the total increase in personnel expenditures for that period.

Corrections' healthcare benefit expenditures pay for current employees (59 percent) and retirees (41 percent). The price tag for these is largely affected by external factors such as changes in healthcare costs nationwide, and changes to staffing levels. Union negotiations set contribution rates, which also determine what share of increasing health costs will be paid by the state or by the employees.

Employer contribution rates for health benefits are set by bargaining unit, and are often the same across all groups. In recent years, the PSCOA employer contribution rate has been slightly above that of other groups, but in 2018/19 the state will contribute the same amount per pay period for corrections officers as for AFSCME and SEIU employees: $486 per pay period, or about $13,000 per year for each employee. The commonwealth contributes another $10,000 per active employee each year to provide for retiree healthcare.

Overtime

Over the past 10 years, overtime has been the second fastest growing component of personnel expenditures, surpassed only by retirement benefits. Overtime expenditures grew by $62 million, a 163-percent increase, or 8 percent of total personnel expenditure growth.

Overtime costs peaked in 2014/15 at $104 million, nearly 3 times more than 2006/07 levels ($38 million). A recent Legislative Budget and Finance Committee report that examined this trend concluded overtime is driven by understaffing, an increased need for security hours due to inmate health needs and new mental health care standards, and overtime spikes caused by hiring freezes.

In all, LBFC estimated the department could have avoided $16.2 million in overtime costs in 2015/16 alone by increasing the filled complement, even after the added cost of additional personnel.

But this was not a new idea. In 2012, an auditor general audit of the Department of Corrections similarly concluded that the department could save money by hiring more officers and reducing "excessive" overtime payments – which, in some cases, exceeded the base salary earned by the employee.

Notably, overtime expenditures have decreased since the 2014 peak, now below $100 million once again. The department has undertaken an overtime optimization study, which is expected to result in further declines in the coming years.

High overtime expenditures have garnered attention due to their quick rise and because they are often seen as avoidable with appropriate staffing and policy choices. Nevertheless, it accounts for just 5 percent of total personnel spending, a figure which has remained stable over the past 10 years.

Conclusion: The years ahead

A new arbitration agreement between the commonwealth and the officer's union, PSCOA, was signed for a three-year period from 2017/18 through 2019/20 on September 14, 2017. The agreement provides for general salary increases, annual longevity and step increases, healthcare contribution rates, and other terms including an overtime restriction on working more than two consecutive days of double shifts. This contract along with staffing needs, will determine personnel and therefore department costs for the next three years.

The arbitration award provides for three annual general salary increases that total 6 percent over the term of the contract. These increases do not exceed annual general salary increases awarded to AFSCME and SEIU employees for the same years. The contract also awards annual step increases and, for employees with at least five years of service, longevity increases in each of the three years. By comparison, DOC employees under the AFSCME and SEIU contracts will receive annual step increases.

The department continues to study overtime and implement changes to optimize staffing to decrease overtime costs. Although overtime costs fell in the past two years, that trend may not continue, particularly if a prolonged revenue stalemate for the 2017/18 budget affects staffing.

As the employer contribution rate reaches the actuarially required contribution rate, annual increases to DOC retirement benefit expenditures are expected to shrink. Specifically, the State Employees Retirement System reports that the employer contribution rate will begin to fall in 2018/19. Payroll, the other factor in retirement benefit expenditures will continue to increase. Together, the upcoming decrease to the contribution rate and rising payroll means DOC retirement benefit expenditures will continue to rise but at a slower rate than recent years, and may fall by fiscal year 2022/23.

It is likely that personnel costs and total department spending will continue to rise in the coming years unless a significant decrease in the filled complement occurs. Such a decrease would only reduce costs if it were brought on by decreased staffing needs (i.e. smaller inmate population, facilities closed), not budget cuts alone.

Appendix A Personnel Expenditures

Table A1. Annual Personnel Expenditures by Type, $ amounts in thousands

Fiscal Year	Health benefits	Other fixed benefits	Retirement Benefits	Other variable benefits	Salaries and wages	Overtime	Other personnel costs	Total
2006/07	214,937	1,794	34,666	73,182	664,526	37,669	23,967	1,050,742
2007/08	227,232	1,913	37,598	81,123	693,361	55,001	34,720	1,130,948
2008/09	246,851	1,659	38,465	81,368	737,158	50,108	24,557	1,180,167
2009/10	257,172	1,704	42,176	103,080	773,145	51,109	24,407	1,252,793
2010/11	261,782	1,726	53,477	103,452	811,697	49,098	25,207	1,306,439
2011/12	261,725	1,923	87,788	106,149	827,668	59,496	26,231	1,370,981
2012/13	265,547	1,762	123,850	109,445	821,929	70,319	26,499	1,419,352
2013/14	290,787	1,755	169,121	111,955	835,172	79,820	28,984	1,517,593
2014/15	308,135	1,733	219,119	127,131	848,714	104,552	28,697	1,638,079
2015/16	346,809	1,773	266,104	134,583	873,488	100,567	29,703	1,753,027
2016/17	337,634	1,802	318,599	128,547	917,649	99,203	29,545	1,832,979
10-Year Change ($)	122,697	7	283,933	55,365	253,123	61,534	5,578	782,238
10-Year Change (%)	57%	0%	819%	76%	38%	163%	23%	74%
Growth Rate (CAGR)	4.62%	0.04%	24.83%	5.80%	3.28%	10.17%	2.11%	5.72%
Growth Rate (AAGR)	4.71%	0.27%	25.97%	6.11%	3.30%	11.39%	3.47%	5.73%

Source: Expenditures in fiscal year, grouped by commitment item, Payroll Posting Detail, SAP

Table A2. Percent of Personnel Spending in Year by Expenditure Type

Fiscal Year	Health benefits	Other fixed benefits	Retirement Benefits	Other variable benefits	Salaries and wages	Overtime	Other personnel costs	Total
2006/07	20%	0%	3%	7%	63%	4%	2%	100%
2007/08	20%	0%	3%	7%	61%	5%	3%	100%
2008/09	21%	0%	3%	7%	62%	4%	2%	100%
2009/10	21%	0%	3%	8%	62%	4%	2%	100%
2010/11	20%	0%	4%	8%	62%	4%	2%	100%
2011/12	19%	0%	6%	8%	60%	4%	2%	100%
2012/13	19%	0%	9%	8%	58%	5%	2%	100%
2013/14	19%	0%	11%	7%	55%	5%	2%	100%
2014/15	19%	0%	13%	8%	52%	6%	2%	100%
2015/16	20%	0%	15%	8%	50%	6%	2%	100%
2016/17	18%	0%	17%	7%	50%	5%	2%	100%
10-Year Change	-2%	0%	14%	0%	-13%	2%	-1%	0%

Source: Share of total in year shown in Table A1

Table A3. Annual Personnel Expenditures, Inflation Adjusted

Fiscal Year	Unadjusted	Inflation-adjusted (2016 dollars)
2006/07	1,050,742	1,242,447
2007/08	1,130,948	1,306,477
2008/09	1,180,167	1,291,035
2009/10	1,252,793	1,399,841
2010/11	1,306,439	1,441,972
2011/12	1,370,981	1,460,223
2012/13	1,419,352	1,490,746
2013/14	1,517,593	1,563,277
2014/15	1,638,079	1,654,429
2015/16	1,753,027	1,767,527
2016/17	1,832,979	1,832,979
10-Year Change ($)	782,238	590,532
10-Year Change (%)	74%	48%

Source: Total from Table A1, BLS CPI Inflation Calculator

Appendix B. Complement and Collective Bargaining Agreements

Table B1. Department of Corrections Personnel Count

Fiscal Year (Last day of fiscal year)	Total Personnel	Corrections Officers (H1)	Other Employees	Percent Officers
2006/07	15,980	10,429	5,550	65%
2007/08	16,552	10,819	5,733	65%
2008/09	16,881	11,145	5,737	66%
2009/10	17,257	11,415	5,842	66%
2010/11	16,797	11,096	5,701	66%
2011/12	16,772	11,089	5,683	66%
2012/13	16,526	10,915	5,611	66%
2013/14	16,477	10,895	5,582	66%
2014/15	16,530	10,901	5,628	66%
2015/16	15,665	10,461	5,204	67%
2016/17	15,678	10,436	5,242	67%
10-Year Change (Count)	(302)	7	(309)	1.3%
10-Year Change (%)	-1.9%	0.1%	-5.6%	2.0%

Source: Total vacant and filled FTE on last day of fiscal year, Complement Summary report, SAP

Table B2. General Salary Increase Detail by Bargaining Unit

PSCOA (Corrections Officers)			AFSCME & SEIU		
Agreement Period	GSI Effective Date	Percent Increase	Agreement Period	GSI Effective Date	Percent Increase
2005-2008	1/1/2006	3.0%	2003-2007	7/1/2005	3.0%
	7/1/2006	3.5%		7/1/2007	3.5%
	7/1/2007	3.5%	2007-2011	7/1/2008	3.0%
2008-2011	7/1/2008	3.0%		7/1/2009	3.0%
	7/1/2009	3.0%		10/1/2010	4.0%
	7/1/2010	4.0%	2011-2015	7/1/2012	1.0%
2011-2014	7/1/2012	1.0%		7/1/2013	0.5%
	7/1/2013	1.0%		1/1/2014	0.5%
	4/1/2014	2.0%		7/1/2014	2.0%
2014-2017	1/1/2015	2.0%	2015-2016	*No general salary increase*	
	7/1/2016	3.0%	2016-2019	10/1/2016	2.8%
	1/1/2017	3.0%		7/1/2017	2.0%
2017-2020	10/1/2017	2.0%		7/1/2018	2.5%
	7/1/2018	2.25%			
	7/1/2019	1.75%			
10-Year Summary, 2007/08 through 2016/17			10-Year Summary, 2007/08 through 2016/17		
Total GSI		25.5%	Total GSI		20.3%
Count of increases		10	Count of increases		9
Average increase / fiscal year		2.6%	Average increase / fiscal year		2.0%

Source: Collective bargaining agreements and arbitration awards, Office of Administration, PSCOA

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