

# The Minimum Wage Bill S.40: Background and Fiscal Note

April 4, 2018

Joyce Manchester

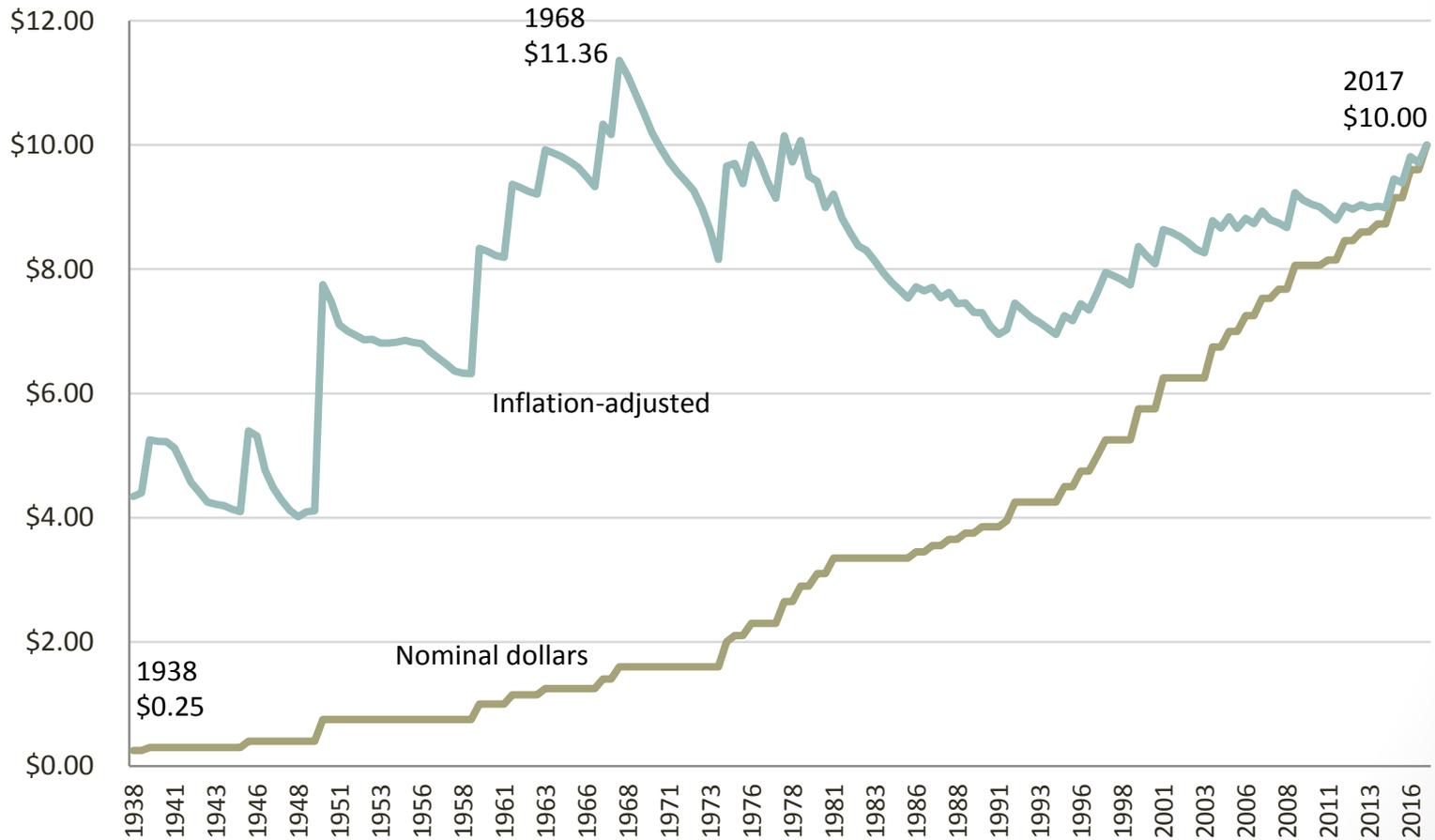
Joint Fiscal Office

# Vermont's Minimum Wage

- Currently \$10.50 per hour for most employees.
  - ❖ The minimum wage will increase by the percentage increase in the CPI or 5%, whichever is less, on January 1, 2019 and beyond.
  - ❖ S. 40 would raise the minimum wage to \$15 in 2024.

	CPI inflation (Consensus)	Projected Current Law	<b>\$15 in 2024</b>	Projected Annual Increase	Difference from Current Law
2018	2.5%	\$10.50	\$10.50		\$0.00
2019	2.9%	\$10.80	\$11.10	\$0.60	\$0.30
2020	2.8%	\$11.11	\$11.75	\$0.65	\$0.64
2021	2.5%	\$11.38	\$12.50	\$0.75	\$1.12
2022	2.3%	\$11.65	\$13.25	\$0.75	\$1.60
2023	2.2%	\$11.90	\$14.10	\$0.85	\$2.20
2024	2.2%	\$12.16	\$15.00	\$0.90	\$2.84

# Vermont's Minimum Wage, Nominal and Inflation-Adjusted using CPI, 1938-2017



Prepared by the Joint Fiscal Office.

# Vermont's Labor Market

- Roughly 90% of Vermont employers have 20 or fewer employees.
  - Those employers are responsible for 1/3 of Vermont's private jobs and pay 30% of private sector wages.
- Industries with a large share of workers that would be affected by an increase in the minimum wage include:
  - Gasoline stations, retail stores, food and beverage stores
  - Warehousing and storage
  - Food services and drinking places
  - Textile and apparel manufacturing
  - Furniture and wood product manufacturing
  - Large food product manufacturing
  - Nonprofits and social services
  - Child care

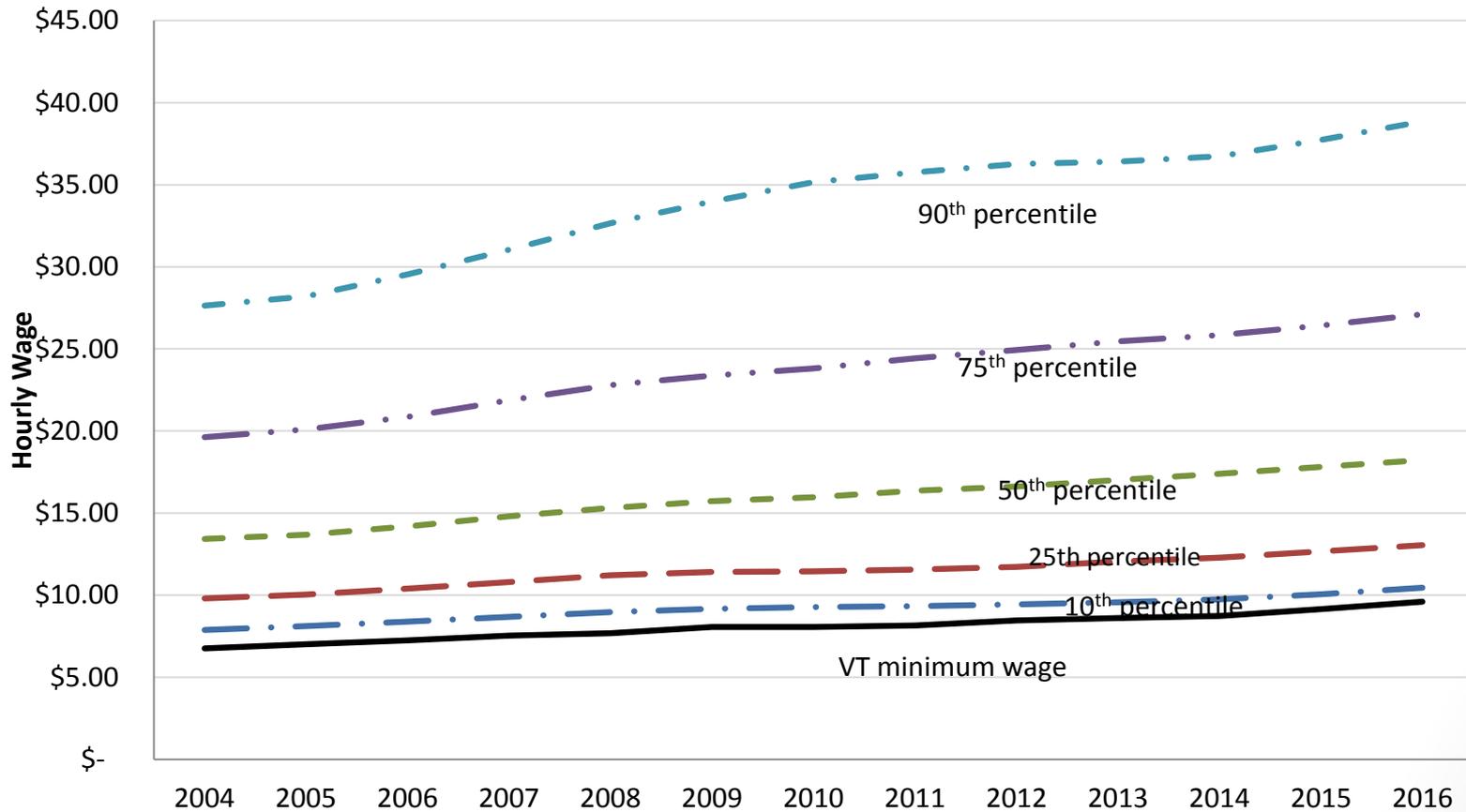
# Characteristics of Minimum Wage Workers based on ACS

- 42% of all minimum wage workers are the head of a family (either a couple or single parent family).
  - 40% of those workers earn at least  $\frac{1}{2}$  of their family's income.
- 59% of all minimum wage workers are over age 30.
- 48% of all female minimum wage workers are older than 40, while only 32% of all male workers are older than 40.
- 49% of all male minimum wage workers are under the age of 30, while only 36% of all female minimum wage workers are younger than 30.

# Wage Distribution in Vermont

- About 25,500 jobs, or 8.5% of Vermont jobs, are at the minimum wage of \$10.50.
- In 2016, when the minimum wage was \$9.60:
  - Hourly wages at the 10th percentile were \$10.45;
  - Hourly wages at the median, or 50th percentile, were \$18.23; and
  - Hourly wages at the 90th percentile were \$38.85.

# Vermont Wage Distribution and the Vermont Minimum Wage, nominal dollars, 2004-2016



Source: Occupational Employment Statistics Survey. Data include salaried workers as well as workers paid by the hour. Prepared by the Joint Fiscal Office.

# Growing Disparity in Incomes

- In addition to hourly wages, analysts also look at income disparity over time, comparing incomes at the top of the distribution to incomes at the bottom.
  - Income includes not only earned income but also income from assets such as stocks or bonds or rental properties.
- Income disparity can be measured by comparing the ratio of the top 5% of average U.S. household income to the lowest 20%.
- That ratio has increased from about 17.6 in 1967 to about 29 in 2016
  - In 2016, the average income of the top 5% was \$375,000 compared to \$12,900 for the lowest 20%.

# The Vermont Basic Needs Budget

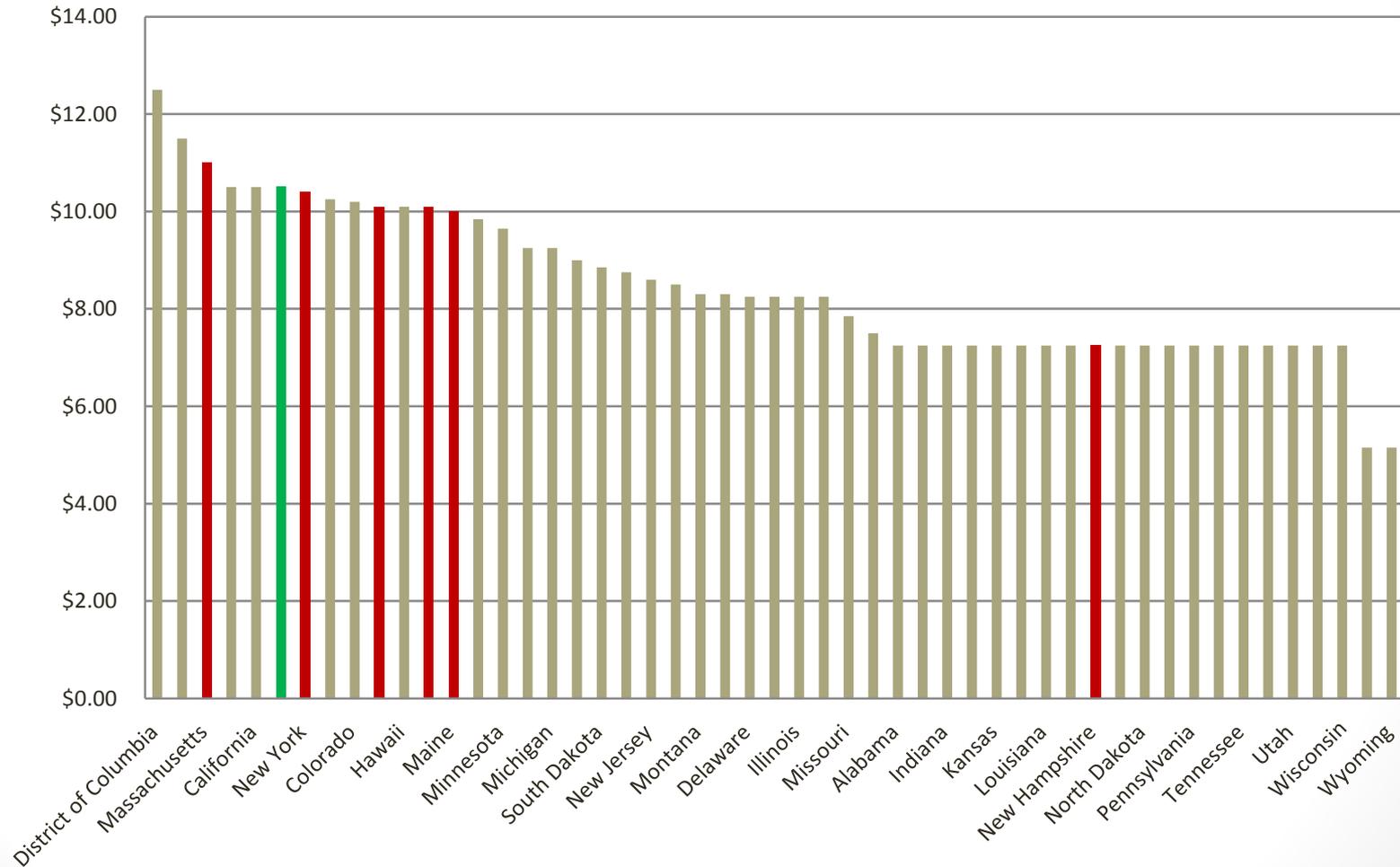
- A Basic Needs Budget is a market-based analysis that accounts for estimated monthly living expenses in Vermont.
  - Includes costs for essential items such as food, housing, transportation, child care, clothing and household expenses, telecommunications charges, health and dental care, renter's insurance, life insurance, and savings.
  - The budget differs based on family size and whether the family lives in an urban or rural part of Vermont.

# The Vermont Livable Wage

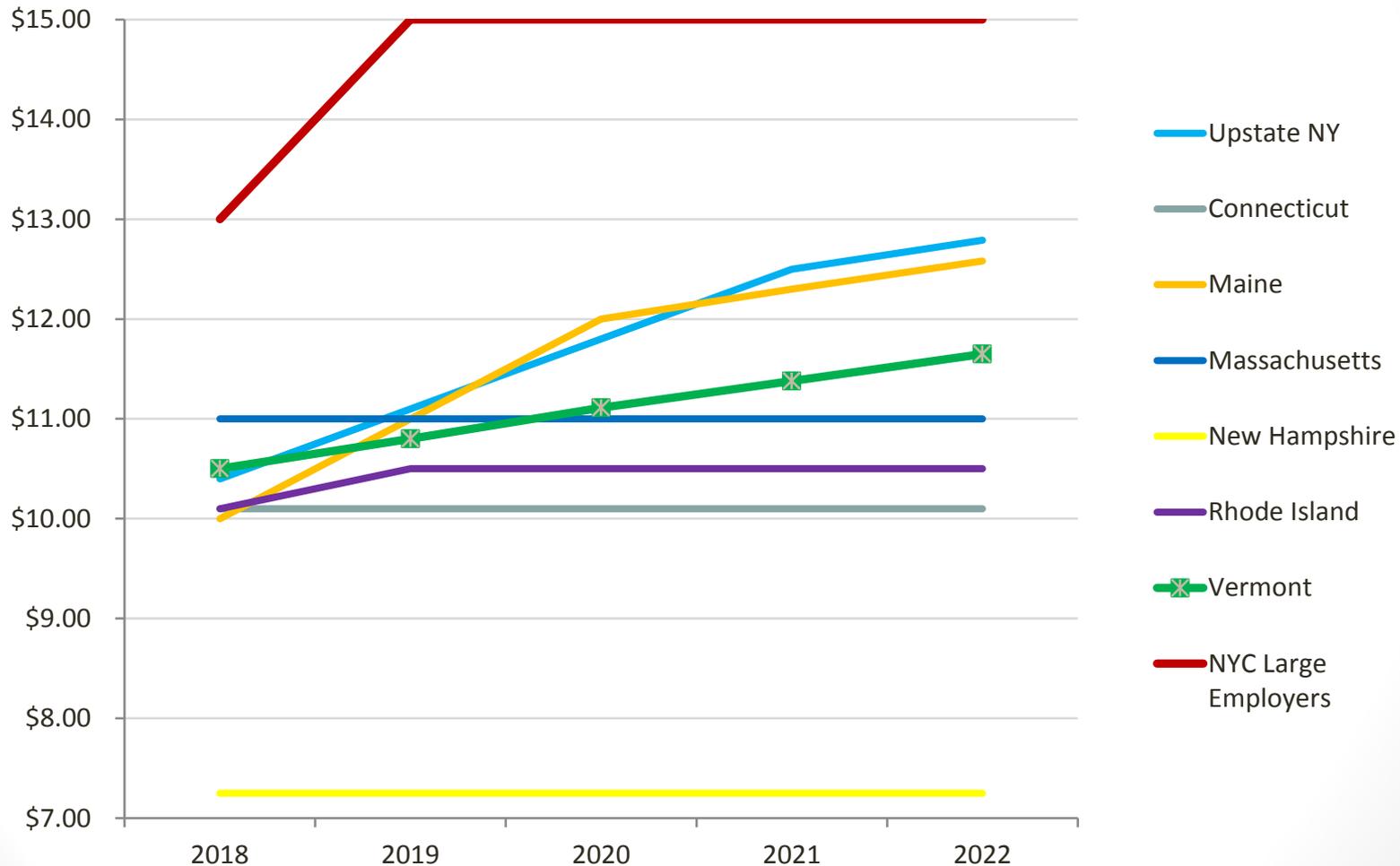
- The Vermont Livable Wage is “the hourly wage required for a full-time worker to pay for one-half of the basic needs budget for a two-person household with no children and employer-assisted health insurance averaged for both urban and rural areas.” 2 V.S.A. § 505.
  - Vermont’s Livable Wage was first estimated in 1998.
- The 2016 Vermont Livable Wage was \$13.03 per hour.
- Between 1998 and 2016, the Vermont Livable Wage increased 2.6% per year.
  - Over that same period, the Vermont minimum wage increased 3.4% per year.

# Minimum Wage by State in 2018

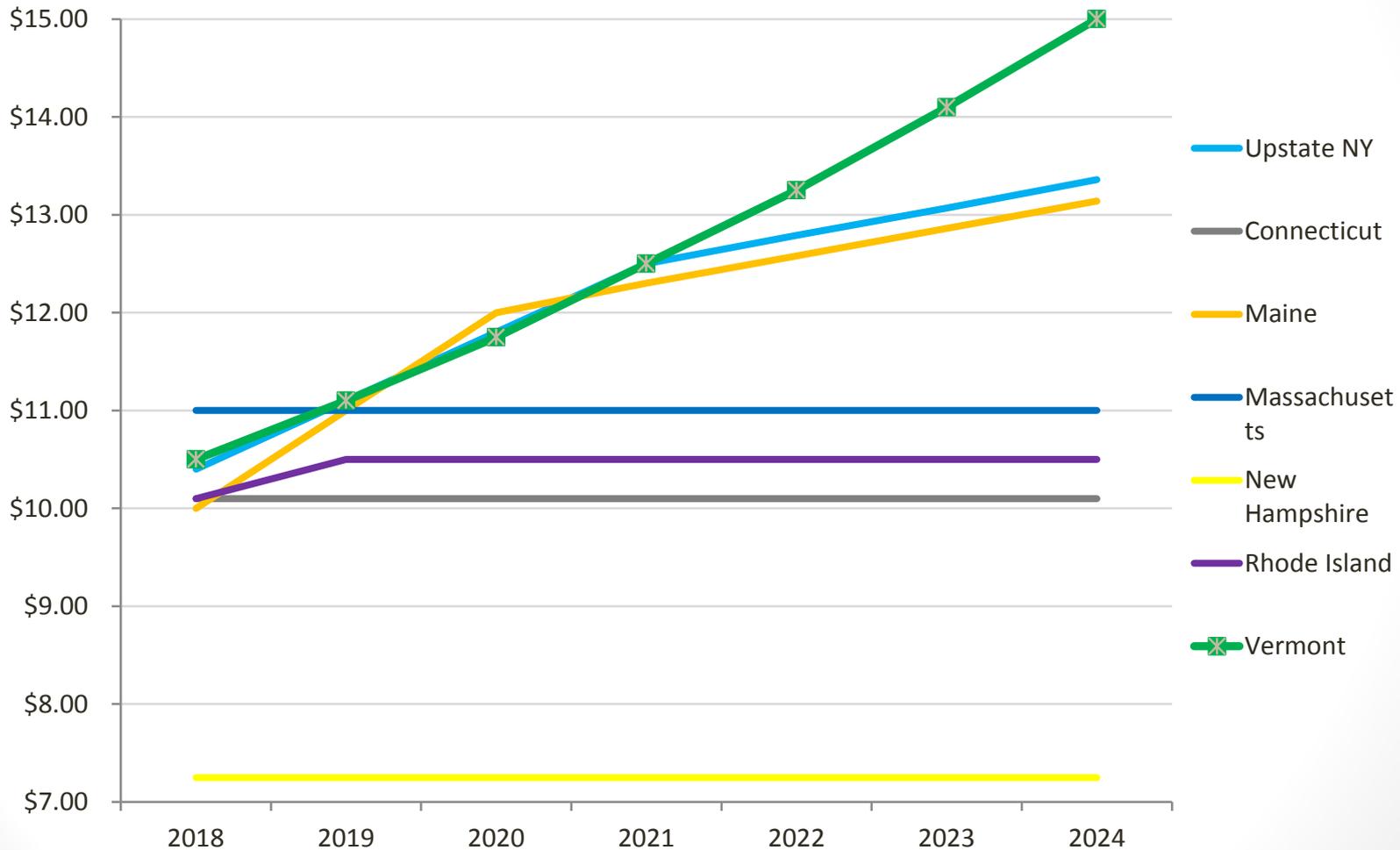
## with the New England States and New York Highlighted



# Comparison of Minimum Wage Increases in New England and New York State; 2018-2022



# Comparison of Minimum Wage Increases in New England and Upstate New York Under S.40; 2018-2024



# Text of S.40

## Sec. 3. MINIMUM WAGE; ADJUSTMENT FOR INFLATION; REPORT

On or before January 15, 2023, the Legislative Council and the Joint Fiscal Office shall submit a written report to the House Committee on General, Housing, and Military Affairs and the Senate Committee on Economic Development, Housing and General Affairs regarding potential mechanisms for indexing the minimum wage established pursuant to 21 V.S.A. § 384 to inflation after 2024. In particular, the report shall:

- (1) identify and examine mechanisms that other jurisdictions use to index their minimum wages to inflation and the potential benefits and disadvantages of each mechanism; and
- (2) identify and examine any alternative mechanisms to index the minimum wage to inflation, including alternative measures of inflation, and the potential benefits and disadvantages of each mechanism.

# An Overview of the Fiscal Note on S.40

- Effects on the State's economy
  - Employment and employees
  - Businesses and consumer
- Effects on the State's budget
  - State revenues
  - State expenditures for benefit programs

- Available online at

[http://www.leg.state.vt.us/jfo/fiscal\\_notes/2018 S 40 Fiscal note for minimum wage bill S 40.pdf](http://www.leg.state.vt.us/jfo/fiscal_notes/2018_S_40_Fiscal_note_for_minimum_wage_bill_S_40.pdf)

# Effects of Raising Vermont's Minimum Wage

- More in-depth analysis is available in the Final Report of the Minimum Wage Study Committee, a JFO Issue Brief, and various background materials
  - [http://www.leg.state.vt.us/jfo/Minimum Wage Study Committee/Minimum%20Wage%20and%20Benefits%20Cliff%20Study%20Committee%20Report.pdf](http://www.leg.state.vt.us/jfo/Minimum%20Wage%20Study%20Committee/Minimum%20Wage%20and%20Benefits%20Cliff%20Study%20Committee%20Report.pdf)
  - [http://www.leg.state.vt.us/jfo/issue briefs and memos/Issue Brief Two Minimum Wage Studies.pdf](http://www.leg.state.vt.us/jfo/issue%20briefs%20and%20memos/Issue%20Brief%20Two%20Minimum%20Wage%20Studies.pdf)
  - [http://www.leg.state.vt.us/jfo/min wage notebook.aspx](http://www.leg.state.vt.us/jfo/min%20wage%20notebook.aspx)

# Vermont-specific effects

- Kavet, Rockler & Associates, LLC have provided several analyses of raising Vermont's minimum wage
  - March 2014
    - \$10.00 and \$12.50 in 2015
  - February 2017, April 2017
    - \$15.00 in 2022
  - October 2017
    - \$12.50 in 2021
    - \$13.25 in 2022
    - \$15.00 in 2022

# Effects on employment and employees

- Positive effects
  - Reduced employee turnover
  - Increased productivity
  - Increased disposable income and increased demand for goods and services by employees
- Negative effects
  - Job losses
  - Reduced employee hours or benefits and training
  - Slower wage growth overall

# Effects on businesses and consumers

- For businesses, increased labor costs from changes in the minimum wage could result in lower profit margins
  - Some businesses might choose to relocate to another state or to invest in automation in an effort to reduce labor costs
- For consumers, increased labor costs might lead to higher prices
  - For example, higher restaurant prices might ensue

# Most recent analysis

- Fiscal Note on S.40, February 8, 2018

<b>Table 1. Minimum Wage Paths in Nominal Dollars, Current Law and Proposed Path</b>					
	CPI inflation (Consensus)	Projected Current Law	<b>\$15 in 2024</b>	Projected Annual Increase	Difference from Current Law
2018	2.5%	\$10.50	\$10.50		\$0.00
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# Direct fiscal impact for State budget

- Increased State revenue
  - Income taxes, other taxes and fees
- Higher wages paid to State employees
  - State workers and contractors
- Possible impacts on State program benefit levels
  - Changes in eligibility
- Note that gradual increase in the minimum wage over 6 years will spread out the impacts

# Net fiscal impact in FY 2019 and 2020

- Net fiscal gain to the State's budget from increased tax revenue and decreased benefit payments
  - FY2019: about \$150,000 in 2018 dollars (6 mos. only)
  - FY2020: about \$2 million in 2018 dollars
- Between 40% and 42% of the net fiscal gain comes from higher revenues
- The remainder comes from State savings in the State Earned Income Tax Credit (EITC), renter rebate, property tax adjustment, and homeowner rebate as well as reduced eligibility for State benefit programs such as Medicaid, Reach Up, LIHEAP

# Increased wages paid by the State

- State employees
  - Estimated yearly cost, FY 2019-2024, ~\$600,000
    - Smaller in earlier years, larger in later years
    - Includes pay, State contributions for Social Security and Medicare, and retirement contributions where relevant
  - Most costs come from temporary workers
  - Historically, ~40 percent of the cost of the State workforce has been covered by federal or other funding sources
    - That share could change going forward

# Increased State wages, continued

- The cost of State contracts could increase
  - AOT contractors
  - Designated Agency and Specialized Service Agency organizations, now pegged at \$14/hour
  - Home Health and Personal Care organizations, VNAs
    - Federal reimbursement rates do not change with wages paid
- Public education
  - Pre-K – 12: examples suggest < 0.1 percent of budget
  - UVM: ~\$75,000; VT State Colleges: ~\$60,000
    - Unclear if federal work-study students would see higher wages or reduced hours

# Increased State wages, continued

- State Employees' Retirement and VT State Teachers Retirement Funds
  - Higher wages could mean higher liability
  - But temporary employees do not receive retirement benefits; for others, impact seems minimal
- Changes in eligibility for other State benefit programs
  - Largest effect is seen in child care subsidies
  - Also Medicaid, Reach Up, LIHEAP, EITC

# Overall economic effects

- Many minimum wage workers earn more
  - Some minimum wage workers work fewer hours or lose their jobs: CY2019 ~200 fewer jobs, CY2020 ~350 fewer jobs
  - Rough estimate suggests 2,250 fewer jobs each year on average, 2028-2040
- During expansionary years, more people might be induced to enter the labor force
- Fewer federal funds coming to Vermont as eligibility for federal benefits drops, and higher federal tax liability for some, lead to a slightly lower level of GDP relative to current law
  - On average, VT GDP lower by 0.3%, 2028-2040

**Table 2. Outcomes for the Minimum Wage Path that Reaches \$15 in 2024**  
**PRELIMINARY CALENDAR-YEAR ESTIMATES BASED ON MODELING FOR THE STUDY COMMITTEE,**  
**October 2017**

	in 2019	in 2020	<i>in 2024</i>
Percent change from 2018 minimum wage, inflation-adjusted	3%	6%	23%
Approximate share of jobs at less than proposed minimum wage - DOL basis	10%	12%	22%
Approximate number of jobs at less than proposed minimum wage (DOL basis*)	31,900	37,900	65,500
Initial wage bill change as a share of total wages & salary	0.02%	0.25%	1.5%
Aggregate initial income gains of low-wage workers (2018\$)	\$3 mil	\$30 mil	\$174 mil
Net fiscal gain to State from increased tax revenue & decreased benefit payments (2018\$)	\$0.3 mil	\$3.5 mil	\$20 mil
Net reduction in federal funds to State economy from decreased federal benefits and increased federal taxes (2018\$)	\$1 mil	\$9 mil	\$54 mil
Approximate net disemployment (#jobs)	200	350	950

Source: JFO Fiscal Note, February 7, 2018

**Table 2. Outcomes for the Minimum Wage Path that Reaches \$15 in 2024**  
**PRELIMINARY CALENDAR-YEAR ESTIMATES BASED ON MODELING FOR THE STUDY COMMITTEE,**  
**October 2017**

	<b>Long-Term Outcomes, Average 2028-2040</b>
Net annual long-term disemployment (#jobs)	2,250
Disemployment as a share of total jobs	0.5%
Disemployment as a share of minimum wage jobs	3.3%
Effect on level of Vermont GDP	-0.3%

Source: Illustrative outcomes based on Kavet Memorandum of Oct. 2, 2017 and interpolation; all outcomes here are presented by calendar year.

\*Notes: The job count on the DOL basis counts wage and salary jobs, but excludes farm workers, the self-employed, and household workers; for further discussion of the outcomes, see the Study Committee Report.

Source: JFO Fiscal Note, February 7, 2018

Any Questions?

# The Vermont Basic Needs Budget

## 2016 Basic Needs Budget Wages, Per Earner [2]

Family Type	Urban	Rural
Single Person	\$17.64	\$15.76
Single Person, Shared Housing	\$14.46	\$12.98
Single Parent, One Child	\$29.50	\$25.11
Single Parent, Two Children	\$38.16	\$32.52
Two Adults, No Children	\$13.54	\$12.51
Two Adults, Two Children (one wage earner)	\$32.63	\$30.67
Two Adults, Two Children (two wage earners)	\$21.97	\$20.35

# Consolidated State Minimum Wage Update Table

Source: U.S. Department of Labor

Greater Than Federal Min. Wage	Equals Federal Min. Wage of \$7.25	Less Than Federal Min. Wage	No Min. Wage Required
AK - \$9.84	IA	GA - \$5.15	AL
AR - \$8.50	ID	WY - \$5.15	LA
AZ - \$10.50	IN		MS
CA - \$11.00	KS		SC
CO - \$10.20	KY		TN
CT - \$10.10	NC		
DC - \$12.50	ND		
DE - \$8.25	NH		
FL - \$8.25	OK		
HI - \$10.10	PA		
IL - \$8.25	TX		
MA - \$11.00	UT		
MD - \$9.25	VA		
ME - \$10.00	WI		
MI - \$9.25			
MN - \$9.65			
MO - \$7.85			
MT - \$8.30			
NE - \$9.00			
NJ - \$8.60			
NM - \$7.50			
NY - \$10.40			
NV - \$8.25			
OH - \$8.30			
OR - \$10.25			
RI - \$10.10			
SD - \$8.85			
VT - \$10.50			
WA - \$11.50			
WV - \$8.75			

# COMPARISON OF MINIMUM WAGE INCREASES IN NEW ENGLAND AND NEW YORK STATE

Year	New York	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
2018	NYC ≥11: \$13.00 NYC ≤10: \$12.00 Downstate NY: \$11.00 Upstate NY: \$10.40	\$10.10	\$10.00	\$11.00	\$7.25	\$10.10	\$10.50
2019	NYC ≥11: \$15.00 NYC ≤10: \$13.50 Downstate NY: \$12.00 Upstate NY: \$11.10	\$10.10	\$11.00	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2020	NYC ≥11: \$15.00 NYC ≤10: \$15.00 Downstate NY: \$13.00 Upstate NY: \$11.80	\$10.10	\$12.00	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2021	NYC ≥11: \$15.00 NYC ≤10: \$15.00 Downstate NY: \$14.00 Upstate NY: \$12.50	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2022	NYC ≥11: \$15.00 NYC ≤10: \$15.00 Downstate NY: \$15.00 Upstate NY: Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less

# Comparison of Minimum Wage Increases in New England and Upstate New York Under S.40

Year	Upstate New York	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
2018	\$10.40	\$10.10	\$10.00	\$11.00	\$7.25	\$10.10	\$10.50
2019	\$11.10	\$10.10	\$11.00	\$11.00	\$7.25	\$10.50	\$11.10
2020	\$11.80	\$10.10	\$12.00	\$11.00	\$7.25	\$10.50	\$11.75
2021	\$12.50	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$12.50
2022	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$13.25
2023	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$14.10
2024	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$15.00