Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.40 An act relating to increasing the minimum wage
As passed by the Senate Economic Development Committee on February 6, 2018

https://legislature.vermont.gov/assets/Documents/2018/WorkGroups/Senate%20Economic%20Development/Bills/S.40/S.40~Damien%20Leonard~As%20Recommended%20~2-6-2018.pdf

Overview

This bill proposes to raise the minimum wage in Vermont from the current $10.50 to $15.00 in 2024 following the path shown below.

Table 1. Minimum Wage Paths in Nominal Dollars, Current Law and Proposed Path

	CPI inflation (Consensus)	Projected Current Law	**$15 in 2024**	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

Fiscal and Economic Impacts

Direct Fiscal Impact. The direct fiscal impact to the State arises from 1) increased State revenue coming from income taxes and other taxes and fees, 2) the cost of higher wages paid to some State workers and contractors, and 3) possible impacts on State program benefit levels arising from changes in eligibility. The gradual increase in the minimum wage occurring over a period of years will minimize those impacts and allow employers and employees time to adjust.

The net fiscal impact on the State from increased revenues and reduced program benefits, expressed in 2018 dollars and roughly estimated, would be about $150,000 in FY2019 and about $2 million in FY2020.[1]

1. Increased tax revenue from the State income tax and other State revenue sources would accrue directly as workers earn higher wages. Indirectly, those workers would have more spending power that would boost sales taxes and other revenues collected by the State. Between 40 percent and 42 percent of the net fiscal impact to the State comes from higher revenue collections combined with State savings in the State Earned Income Tax Credit (EITC), renter rebate, property tax adjustment, and homeowner rebate.

2. An increase in the minimum wage would increase costs to the State as wages rise for some State workers, contractors, and other associated workers. A ripple effect on the State pension funds is also possible.[2]

a. State employees

Direct State salaries would likely see limited impacts because not many State workers or contractors earn wages that are at or below the proposed minimum wage levels. The yearly cost impact for the State employee workforce would be about $600,000 averaged over the fiscal years from 2019 through 2024. Costs would be smaller in the early years and larger closer to FY2024. The estimate includes the impact on pay, State Social Security and Medicare contributions under the Federal Insurance Contributions Act (FICA), and, where relevant, retirement contributions. Most of the costs come from temporary workers. Historically, roughly 40 percent of the cost of the State workforce has been covered by federal or other funding sources. It should be noted, however, that changes in federal policy could reduce funding available to the State, and some grants and federal funding streams may not increase if State personnel costs rise as a result of an increase in the minimum wage.

b. State contracts

The cost of State contracts would increase as State vendors face higher wage requirements and pass on higher costs though the budgetary process. State vendors include AOT contractors,

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[1] Analysis conducted for the Study Committee in the fall of 2017 yielded estimates of the net fiscal impact on the State for minimum wage paths that reach $12.50 in 2021, $13.25 in 2022, and $15 in 2022. The minimum wage path adopted in the bill as shown above roughly corresponds to the path that reaches $12.50 in 2021 in years 2019, 2020 and 2021. The big jump in the State fiscal impact from FY2019 to FY2020 comes from three factors: the higher minimum wage starts halfway through FY2019, increased State tax revenues grow over time, and eligibility changes in State programs sometimes lag actual wages.

[2] The costs of increased wages for some State workers, contractors, and other associated workers were estimated in work conducted for the Study Committee during the fall of 2017 and the beginning of 2018. Estimates based on the minimum wage path that reached $15 in 2022 were reduced to 60 percent of their original value given the slower rollout shown above and the shift to fiscal years.

Designated Agency and Specialized Service Agency organizations, and Home Health and Personal Care organizations.

1) Agency of Transportation. Little effect would accrue to the Agency of Transportation because most of their projects are fully or partially federally funded, meaning their wages are subject to the Davis-Bacon wage levels and already above $15 per hour.

2) Designated Agency and Specialized Service Agency organizations. Wages in the DAs and SSAs are already pegged at $14 per hour or higher, suggesting relatively limited cost to reaching $15 in 2024.

3) Home Health and Personal Care organizations. Because Medicaid reimburses the Visiting Nurse Associations at federal rates that do not change with wages paid, the VNAs would face increasing fiscal pressures and deficits going forward as the minimum wage rises from its current level to $15 per hour. The Study Committee received a payroll report from ARIS Solutions, a company that processes payments for a substantial number of long-term-care programs overseen and partially funded by the State. Some of those programs reported average hourly wages within $1 of the current minimum wage, suggesting limited upward pressure on wage bills as the minimum wage rises to $15 in 2024.

4) Other service providers funded through the State budget would create some limited budgetary pressures. Such providers include service contractors for building maintenance in leased buildings, some food service providers, and others.

c. Public education

1) Pre-K – 12 employees. An analysis of Addison Northwest and North Country Supervisory Unions based on assumed growth rates using the minimum wage path above showed relatively small impacts. In Addison NW Supervisory Union, inflation-adjusted wages would increase about $4,300 on average over the next six years, with lower increases in the early years and larger ones closer to FY2024. Given an annual budget of $21 million, the annual impact would be less than 0.05 percent of their budget. In North Country Supervisory Union, inflation-adjusted wages would grow about $36,700 on average over the next six years, again with lower increases in the early years and larger ones closer to FY2024. Their annual budget is about $46 million, implying the annual impact would be less than 0.1 percent of their budget.

2) The impact on the University of Vermont and Vermont State Colleges was estimated last fall using the faster growth path. For the University of Vermont and converting to the more gradual minimum wage path, the average net impact of reaching a $15 minimum wage in 2022 is estimated to be approximately $75,000 annually in wages and benefits. That cost would be smaller in the early years and larger closer to FY2024. For Vermont State Colleges,

employee wages and benefits would rise about $60,000 through FY2024 if the minimum wage increased to $15 per hour in 2024.[3]

d. State Employees' Retirement and Vermont State Teachers Retirement Funds

State employee and teachers retirement funds will see two offsetting impacts that result in negligible changes. As wages rise, payments into the system will increase for the State and for the participant. In calculating unfunded liabilities, higher wages may result in a small increase in liabilities. As explained in the Study Committee's Final Report, the impact of an increase in the minimum wage on the Vermont State Employees' Retirement Fund would be minimal because the majority of individuals who would be impacted are temporary employees who are not eligible to participate in Vermont State Employees' Retirement System Defined Benefit and Defined Contribution plans. Accordingly, there would be no additional retirement costs for this group.

Exempt State employees have the option of participating in either the Defined Benefit or Defined Contribution plan. Under the Defined Contribution plan, contributions are a flat percentage of an employee's pay: 2.85% for the employee and 7.0% for the employer. Any increase in pay would be multiplied by those percentages to determine additional contributions, but, according to the Treasurer's office, the increase appears to be minimal. For Defined Benefit participants, the increase in pay would marginally affect the projected average final compensation on which the participant's pension benefit is calculated. While it is impossible to quantify an individual's pension benefit without full service year data as well as wages, the impact appears minimal.

Classified employees, who would likely not be impacted by a minimum wage increase until calendar years 2021 and 2022, are eligible for the Defined Benefit plan. As with exempt employees, any calculation for increases in a classified employee's pension benefits based on the minimum wage increase would also include the use of the average final compensation and years of service factors. As with the exempt employees, the increase would be negligible.

e. Other State benefit program impacts

State benefit programs would see some cost savings as higher wages reduce eligibility for benefits. The Study Committee took considerable testimony on this; see pages 15-19 of the Study Committee Final Report. Programs affected by the minimum wage increase could include

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[3] Vermont State College students' wages are likely to be affected by an increase in the minimum wage as well. The additional cost could be as much as about $600,000 through FY2024, or an average of $100,000 annually. Again, those costs would be smaller in the earlier years and larger closer to FY2024. However, because funding for federal work-study students would not change with the minimum wage, the actual effect could be less if student jobs or hours are reduced.

Medicaid, Reach Up, LIHEAP, child care subsidies, and EITC. Child care subsidies paid to providers raise issues that could be addressed in separate legislation.

Federal benefit programs may also be affected as wages rise. A small impact on State finances could arise for programs in which the State has administrative receipts tied to program costs.

Overall Economic Issues

This Fiscal Note focuses on the more direct fiscal impacts. Effects on the State's overall economy would come from several sources. First, the higher wages paid to low-wage workers would raise incomes and allow households to consume more, offset to some extent by any loss in wages to low-wage workers who experience job elimination or reduced hours of work. Second, during expansionary years when employers are looking for workers, the upward wage pressure would induce more people to enter the labor force to take job opportunities that pay higher wages. Finally, as incomes rise, reduced federal benefits negatively affect the State's economy. Fewer federal funds will flow to the State's economy as a result of declining eligibility for benefits, and some households will see an increase in federal tax liability. Table 2 appended to this Fiscal Note shows estimates of overall economic impacts for the proposed minimum wage path in calendar years 2019, 2020, and 2024 as well as long-term outcomes averaged over the years 2028 to 2040.

References

Report of the Minimum Wage and Benefits Cliff Study Committee, December 2017; available online at
http://www.leg.state.vt.us/jfo/Minimum_Wage_Study_Committee/Minimum%20Wage%20and%20Benefits%20Cliff%20Study%20Committee%20Report.pdf

Agency of Human Services, **Report to the Vermont Legislature: Fiscal Year 2019 Budgeting for Designated and Specialized Agencies**; available online at
https://legislature.vermont.gov/assets/Legislative-Reports/ACT-85-Sec.-E.314.2-Payment-to-Specialized-Agencies.pdf

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**	***in 2024***
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*

	Long-Term Outcomes, Average 2028-2040
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.