

Department of Planning and Budget 2007 Fiscal Impact Statement

1. Bill Number SB1327

House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed
Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. Patron Colgan

3. Committee Commerce and Labor

4. Title Increasing the minimum wage.

5. Summary/Purpose: This bill increases the minimum wage from its current federally mandated level of \$5.15 per hour to \$6.50 per hour effective July 1, 2007, unless a higher minimum wage is required by the federal Fair Labor Standards Act.

6. Fiscal Impact Estimates are: Preliminary, see item 8 below.

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Positions</i> | <i>Fund</i> |
|--------------------|----------------|------------------|-----------------|
| 2006-07 | 0 | N/A | N/A |
| 2007-08 | \$3,012,455 | N/A | General Fund |
| 2007-08 | \$2,059,636 | N/A | Nongeneral Fund |
| 2008-09 | \$3,012,455 | N/A | General Fund |
| 2008-09 | \$2,059,636 | N/A | Nongeneral Fund |
| 2009-10 | \$3,012,455 | N/A | General Fund |
| 2009-10 | \$2,059,636 | N/A | Nongeneral Fund |
| 2010-11 | \$3,012,455 | N/A | General Fund |
| 2010-11 | \$2,059,636 | N/A | Nongeneral Fund |
| 2011-12 | \$3,012,455 | N/A | General Fund |
| 2011-12 | \$2,059,636 | N/A | Nongeneral Fund |
| 2012-13 | \$3,012,455 | N/A | General Fund |
| 2012-13 | \$2,059,636 | N/A | Nongeneral Fund |

7. Budget amendment necessary: Yes. Assuming that amounts included in the introduced budget for the Miscellaneous Contingency Reserve Account (Item 462, Paragraph D.) are retained in the final version of the bill, then some level of funding may exist to fund a portion of the estimated FY 2008 general fund cost of this legislation. However, there will still need to be additional funding appropriated to cover the costs of this bill in FY 2008. It is also important to note that the estimated amounts listed above do not include certain agencies and therefore potentially underestimate the cost (see item 8 below).

8. Fiscal implications: This proposed legislation impacts both private and public sector employers. While the impact to private sector employers and local governments could be significant, the exact amount is indeterminate. A partial estimate of the Commonwealth's share of the fiscal impact is included in item 6 above. However, these amounts reflect only a portion of the potential state workforce impacted. Specifically, these amounts are based on payroll data for agencies that participate in the Commonwealth's payroll system (CIPPS) administered by the Department of Accounts. Only about fifty percent of the state workforce is represented in CIPPS. Some large higher education institutions and other agencies utilize

separate payroll systems and therefore the wage information on these employees is not readily accessible. Thus, these employees are not reflected in the amounts shown in item 6. Because of this, the cost of this bill for non-CIPPS agencies is indeterminate.

The amounts for state employees included in item 6 are based on the number of wage employees in various CIPPS participating agencies that are currently earning less than the new hourly minimums stipulated in this bill. The number of wage employees earning less than the new hourly minimum wage was multiplied by the difference between current hourly wages and the new hourly rates stipulated in this bill for each year and the result of this was multiplied by 1,000 hours (assumption of the approximate average hours worked in a given year by a wage employee). This resulted in a total cost for each agency which was then split between general fund and nongeneral fund sources (see item 6).

The out year costs for state employee wages (FY 2009 and beyond) have been set at the FY 2008 amount. Wage employment in state government can vary from one year to the next and one agency to the next making the estimation of an out-year cost difficult.

In addition to the amounts required to bring state employees up to the new minimum wage requirements, the Department of Labor and Industry (DOLI) indicates that investigation of payment of wages complaints would increase as a result of this bill. The agency may require additional resources to deal with the added workload. In addition, public education may be necessary to inform employers about the provisions of the bill which will also result in an added fiscal impact.

Increasing the minimum wage may also have an impact on other programs that have income-based eligibility requirements. For example, anytime a Medicaid or FAMIS recipient (or their responsible family member) receives an increase in pay it could impact the recipient's eligibility.

An increase in the minimum wage that equates to higher gross income could mean the difference between receiving Medicaid or FAMIS for a child, being on a spend-down or not being eligible at all. This may also occur in other programs such as school breakfast.

9. Specific agency or political subdivisions affected: All state agencies and political subdivisions.

10. Technical amendment necessary: No.

11. Other comments: HB1634, HB1651, HB1654, HB2004, HB2508, HB2849, HB2873, HB3054, SB766, and SB1277 also amend the Code to increase the minimum wage.

On Wednesday January 10, 2007, the House of Representatives passed the Fair Minimum Wage Act of 2007. This legislation would increase the federal minimum wage by \$2.10 per hour to \$7.25 per hour over two years. The minimum wage would be increased from \$5.15 per hour 60 days after enactment. One year later, the wage would be increased to \$6.55 per hour and a year after that, it would be increased again to \$7.25 per hour.

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cc: Secretary of Commerce & Trade