Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.23 An act relating to increasing the minimum wage
As passed by the Senate on February 26, 2019

https://legislature.vermont.gov/Documents/2020/Docs/BILLS/S-0023/S-0023%20As%20passed%20by%20the%20Senate%20Official.pdf

Overview

This bill proposes to raise the minimum wage in Vermont from the current $10.78 to $15.00 on January 1, 2024 following the path shown below. In inflation-adjusted dollars, $15.00 in 2024 is equivalent to $13.43 in 2019.

	Table 1. Minimum Wage Paths in Nominal Dollars, Current Law and Proposed Path, as of January 1st			
	Current Law	**$15.00 in 2024**	Projected Annual Increase	Difference from Current Law
2018	$10.50	$10.50		
2019	$10.78	$10.78		
2020	$11.02	$11.50	$0.72	$0.48
2021	$11.26	$12.25	$0.75	$0.99
2022	$11.51	$13.10	$0.85	$1.59
2023	$11.78	$14.05	$0.95	$2.27
2024	$12.04	$15.00	$0.95	$2.96

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 2019 dollars, would be about $2.3 million in FY2020 and about $5.9 million in FY2021.[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. About 40 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.

The bill makes two changes to the Child Care Financial Assistance Program to the extent funds are available.[2] First, it addresses a potential loss in benefits from the Program as the minimum wage increases by adjusting the Program's sliding fee scale for eligible families. Second, the bill adjusts the Program rate paid to providers to offset part of the effect of the increase in the minimum wage on the cost of child care.

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. Some of the costs may be offset by less turnover and reduced training expenses. A small ripple effect on the State pension funds is also possible in later years.[3]

a. State employees

Not many State workers or contractors earn wages that are at or below the proposed minimum wage levels. Costs would be smaller in the early years and larger closer to FY2024, with an average annual cost of $740,000. 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.

b. State contracts

The cost of State contracts would increase as State vendors face higher wage requirements and pass on higher costs through the budgetary process. State vendors include AOT contractors, Designated Agencies and Specialized Service Agencies, and Home Health and Personal Care

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[1] Outcomes based on modeling by Kavet and Associates in February 2019. 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] H.351, if passed, would partially address the same issues.
[3] The costs of increased wages for some State workers, contractors, and other associated workers originally were estimated in work conducted for the Study Committee during the fall of 2017 and the beginning of 2018.

organizations. Only Home Health and Personal Care organizations have a substantial number of employees with wages close to the current minimum wage. The cost effects on those organizations would be relatively small in the early years and increase over time, averaging roughly $3.6 million per year in increased gross Medicaid/Medicare costs. The State share could be as high as $1.6 billion, offset by any savings from lower turnover and reduced training costs. The FY2020 effect is about $800,000 gross, with the State share as high as $360,000.

c. Public education

An analysis of preK-12 employees in two Supervisory Unions showed relatively small impacts of $5,000 to $50,000 per Supervisory Union per year on average over the next five years, with lower increases in the early years and larger ones closer to FY2024. For the University of Vermont, the average net impact is approximately $92,000 annually in wages and benefits, again smaller in the early years and larger closer to FY2024. For Vermont State Colleges, employee wages and benefits would rise about $62,000 through FY2024.[4]

Overall Economic Issues

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 loss or reduced hours of work. Consumer prices could increase slightly as the cost of doing business rises. In addition, during expansionary years, the upward wage pressure would induce more people to enter the labor force to take jobs with higher wages. Finally, as incomes rise, reduced federal benefits negatively affect the State's economy. See Table 2 appended to this Fiscal Note.

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

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[4] 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 $615,000 through FY2024, or an average of $103,000 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.

Table 2. Outcomes for the Minimum Wage Path that Reaches $15 in 2024
CALENDAR-YEAR ESTIMATES BASED ON MODELING in February 2019

	in 2020	**in 2021**	***in 2024***
Percent change from 2018 minimum wage, inflation-adjusted	4%	9%	*25%*
Approximate share of jobs at less than proposed minimum wage - DOL basis	9%	12%	*22%*
Approximate number of jobs at less than proposed minimum wage (DOL basis*)	26,800	35,700	*66,400*
Initial wage bill change as a share of total wages & salary	0.3%	0. 5%	*1.1%*
Aggregate initial income gains of low-wage workers (2019$)	$51 mil	$82 mil	*$196 mil*
Net fiscal gain to State from increased tax revenue & decreased benefit payments (2019$)	$4.5 mil	$7.3 mil	*$17.5 mil*
Net reduction in federal funds to State economy from decreased federal benefits and increased federal taxes (2019$)	$16.5 mil	$26.5 mil	*$63 mil*
Approximate net disemployment (#jobs)	90	200	*800*

	Long-Term Outcomes, Average 2025-2040
Net annual long-term disemployment (#jobs)	1,850
Disemployment as a share of total jobs	0.4%
Disemployment as a share of minimum wage jobs	2.8%
Effect on level of Vermont GDP	-0.28%

Source: Modeling outcomes from Kavet, Rockler & Associates with input from Deb Brighton, February 2019; converted to 2019 dollars by JFO; 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.