

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

Updated: May 16, 2019
Prepared by: Joyce Manchester

**S.23 An act relating to increasing the minimum wage
As passed by the House Committee on Appropriations on
May 13, 2019 – Preliminary Results**

<https://legislature.vermont.gov/Documents/2020/WorkGroups/House%20General/Bills/S.23/Drafts,%20Amendments%20and%20Summaries/S.23~Damien%20Leonard~%20Draft%203.1,%2004-26-2019~As%20Recommended%20by%20Committee~4-26-2019.pdf>

Overview

This bill proposes to raise the minimum wage in Vermont on a faster path than current law, raising it by 2.25 times the rate of CPI inflation until it reaches or surpasses \$15.00. Based on current consensus forecast of inflation, the minimum wage is projected to reach \$15.18 in 2026, equivalent to \$13.01 in 2019 dollars.

Year	Indexed to CPI Inflation	Historical and Consensus CPI Inflation	As Passed House Appropriations 2.25 times inflation			
	Current Law	Increase	2019 \$\$	2.25*CPI	Increase	2019 \$\$
2018	\$10.50	2.43%		\$10.50		
2019	\$10.78	2.50%	\$10.78	\$10.78		\$10.78
2020	\$11.01	2.10%	\$10.78	\$11.29	4.72%	\$11.06
2021	\$11.26	2.30%	\$10.78	\$11.87	5.17%	\$11.37
2022	\$11.52	2.30%	\$10.78	\$12.49	5.17%	\$11.68
2023	\$11.77	2.20%	\$10.78	\$13.11	4.95%	\$12.00
2024	\$12.04	2.30%	\$10.78	\$13.78	5.17%	\$12.34
2025	\$12.31	2.20%	\$10.78	\$14.47	4.95%	\$12.67
2026	\$12.58	2.20%	\$10.78	\$15.18	4.95%	\$13.01

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, 3) possible impacts on State program benefit levels arising from changes in eligibility, and 4) expenses for a study committee. 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 from the minimum wage change, expressed in 2019 dollars, would be about \$0.9 million in FY2020 and about \$2.8 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. In FY 2020, 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.

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.² 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.

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 FY2026, with an average annual cost of \$400,000. 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 long-term care facilities, adult day providers, and home health and personal care organizations. In FY 2020, the State will target Medicaid participating providers, including designated agencies, specialized service agencies, home health agencies, nursing homes, residential care homes, assisted living residences, and adult day agencies. The goal is increase Medicaid reimbursement rates to facilitate payment of wages at least equal to the minimum wage to employees providing services through Medicaid.

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 Addressing “compression” effects for workers with wages just above the new minimum wage would cost more. 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.

The Secretary of Human Services will provide a report to relevant legislative committees by December 15, 2019 with an estimate of that cost based on wage data from providers. JFO's preliminary estimate suggests that the State share in FY 2020 would be about \$280,000 offset by about \$460,000 in program savings. In addition, a second report due December 1, 2019 from the Secretary of Human Services will project the costs for fiscal years 2021 through 2024 of increasing Medicaid reimbursement rates to all Medicaid participating providers to cover raising wages to the new minimum wage and mitigating wage compression for employees providing services pursuant to the State Medicaid Program who are in occupations with a starting wage rate within \$1 of the minimum wage.

c. Public education

An analysis of preK-12 employees in two Supervisory Unions showed relatively small impacts of \$3,000 to \$27,000 per Supervisory Union per year on average over the next seven 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 \$50,000 annually in wages and benefits, again smaller in the early years and larger closer to FY2026. For Vermont State Colleges, employee wages and benefits would rise annually about \$35,000 through FY2026.³

d. Study Committee

The bill creates the Minimum Wage for Employers Providing Benefits Study Committee in the fall of 2019 to examine the possibility of creating a separate minimum wage rate for employers that provide certain benefits to their employees. Two legislators would serve on the Committee at a rate of \$219 per meeting per legislator. The Committee would hold no more than four meetings. Total State expense in FY 2020 would be \$1752.

Note: In the bill as passed by the House Committee on General Government, \$1.25 million is used to restore the base for the Child Care Financial Assistance Program (CCFAP) and \$6.9 million is used to adjust the sliding fee scale and reimbursement rates in CCFAP. Those funds are appropriated in H.531.

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 \$400,000 through FY2026, or an average of \$56,000 annually. Again, those costs would be smaller in the earlier years and larger closer to FY2026. 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.

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; see 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**; see <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 Increases at 2.25 times Inflation until \$15			
CALENDAR-YEAR ESTIMATES based on modeling in February 2019			
	in 2020	in 2021	in 2026
Percent change from 2018 minimum wage, inflation-adjusted	3%	6%	21%
Approximate share of jobs at less than proposed minimum wage - DOL basis	7%	9%	20%
Approximate number of jobs at less than proposed minimum wage (DOL basis*)	20,700	27,400	60,000
Initial wage bill change as a share of total wages & salary	0.15%	0.25%	0.85%
Aggregate initial income gains of low-wage workers (2019\$)	\$23 mil	\$40 mil	\$152 mil
Net fiscal gain to State from increased tax revenue & decreased benefit payments from the minimum wage change (2019\$)	\$1.9 mil	\$3.1 mil	\$13 mil
Net reduction in federal funds to State economy from decreased federal benefits and increased federal taxes (2019\$)	\$9.2 mil	\$12.9 mil	\$49 mil
Approximate net disemployment (#jobs)	40	100	600
	Long-Term Outcomes, Average 2025-2040		
Net annual long-term disemployment (#jobs)		1,400	
Disemployment as a share of total jobs		0.3%	
Disemployment as a share of minimum wage jobs		2.1%	
Effect on level of Vermont GDP		-0.21%	
Source: JFO estimates based on 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.			