

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 18, 2005

TO: Honorable Allan Ritter, Chair, House Committee on Economic Development

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: HB3433 by Thompson (Relating to the minimum wage.), **As Introduced**

No significant fiscal implication to the State is anticipated.

The provisions of the bill amend the Labor Code to increase the state minimum wage from the current federal minimum wage to the greater of: 1) \$6.00 per hour on or after January 1, 2006 and \$7.00 per hour on or after January 1, 2007; or 2) the federal minimum wage.

Beginning with calendar 2008 and each subsequent calendar year, the Texas Workforce Commission (TWC) would increase the minimum wage by the inflation rate, based on the consumer price index for urban wage earners and clerical workers. Under Section 62.057 of the Labor Code, the new minimum wage would not apply to impaired patients and clients of the former Texas Department of Mental Health and Mental Retardation.

The bill would repeal Section 62.151 of the Labor Code, which specifies that state and municipal minimum wage laws do not apply to workers covered by the federal minimum wage in the Fair Labor Standards Act of 1938.

According to the Comptroller's Office, under the 2004-05 General Appropriations Act, the minimum classification schedule (A02 group) salary is currently \$14,376 per year. Thus, no state employee would earn less than the proposed minimum wage of \$6 per hour (\$12,480 per year) in fiscal year 2006. In fiscal year 2007, however, the Comptroller payroll system indicates that 53 state employees would have to be reclassified from salary group A02 to salary group A03, at a minimum salary of \$15,102 per year, to meet the \$7 per hour (\$14,560 per year) minimum wage proposed.

Based on estimates of the U.S. consumer price index, as forecasted by Global Insight, Inc., the state minimum wage would increase to \$7.49 per hour, or approximately \$15,579 per year by calendar 2010. To meet this proposed minimum wage, 69 state employees would have to be reclassified from salary groups A02 and A03 to salary group A04 (minimum salary \$15,864 per year).

The direct effect of increasing the state minimum wage to \$7.49 per hour by 2010 could also be expected to increase state contractor's costs. This potential fiscal impact, which would depend on labor market conditions in each specific industry, cannot be estimated.

Based on the Comptroller's Office analysis, it is estimated that any additional costs could be reasonably absorbed by the respective agency.

Based on the State Auditor's Office, since the \$6.91 rate is effectively equal to \$7 per hour and only a small proportion of state employees are paid near this level, the provisions of the bill would not have a significant impact on state payroll for employees in the State Classification System.

According to TWC, Employees Retirement System, and Health and Human Services Commission, the provisions of the bill would not have a significant impact to the agency.

The University of Texas System indicates that several institutions within the UT System have

employees making less than \$6 per hour, and those institutions would have to increase those employees' hourly rate to the new state minimum wage. The impact would occur in fiscal year 2007 when the minimum wage goes to \$7 per hour; then again each October when the state minimum wage is adjusted for inflation. However, it is anticipated that the increased costs could be reasonably absorbed within the agency's existing resources.

The bill takes effect September 1, 2005

Local Government Impact

For local government entities, costs to implement the bill would depend on two factors: 1) the current minimum wage of the local government, and 2) the number of employees of the local government currently earning a wage below the minimum proposed in the bill.

Most local governmental employees that earn less than the minimum wage proposed in the bill are interns and part-time employees. Increasing the salaries of those who earn less than the minimum proposed in the bill would put some of those employees at the same salary as higher skilled and more senior employees. This is called compression, which is also part of the costs of implementing the proposed legislation.

Source Agencies: 304 Comptroller of Public Accounts, 308 State Auditor's Office, 320 Texas Workforce Commission, 323 Teacher Retirement System, 327 Employees Retirement System, 529 Health and Human Services Commission, 720 The University of Texas System Administration

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