

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 19, 2007

TO: Honorable Joe Deshotel, Chair, House Committee on Economic Development

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

IN RE: HB49 by Chavez (relating to the minimum wage.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB49, Committee Report 1st House, Substituted: a negative impact of (\$326,986,001) through the biennium ending August 31, 2009.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

The bill would amend Section 62.051 of the Labor Code to increase the state minimum wage from the current federal minimum wage to the greater of: 1) \$6.25 per hour on or after September 1, 2007, and \$7.25 per hour on or after September 1, 2008; or 2) the federal minimum wage.

The bill would take effect on September 1, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	(\$90,461,890)
2009	(\$236,524,111)
2010	(\$302,513,910)
2011	(\$306,982,264)
2012	(\$311,519,513)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from GENERAL REVENUE FUND 1	Probable (Cost) from GR MATCH FOR MEDICAID 758	Probable (Cost) from FEDERAL FUNDS 555
2008	(\$112,684)	(\$90,349,206)	(\$131,144,685)
2009	(\$464,919)	(\$236,059,192)	(\$336,045,616)
2010	(\$464,919)	(\$302,048,991)	(\$429,032,996)
2011	(\$464,919)	(\$306,517,345)	(\$434,994,260)
2012	(\$464,919)	(\$311,054,594)	(\$441,005,487)

Fiscal Analysis

The fiscal impact of the bill results from both the direct impact of an increase in the minimum wage, as well as the "ripple effect," which is the expected rise in wages that are currently above the minimum wage, but less than \$9 per hour. The health and human services agencies including the Health and Human Services Commission, Department of Family and Protective Services, and

Department of Aging and Disability Services all assume the impact of both the direct and ripple effect on wages.

The Building and Procurement Commission estimates an increase in rates paid to its contracted custodial vendors. The Department of Transportation assumes an increase in cost for highway maintenance contracts.

Methodology

There is no impact from state full-time-equivalents included in this estimate as the minimum classification schedule results in an hourly wage that is currently above minimum wage. However, the HHS agencies estimate an increase in the rates paid to contracted service providers and this expense makes up the majority of the fiscal impact. The increased cost is \$221.5 million in 2008, \$572.1 million in 2009, \$731.1 million in 2010, \$741.5 million in 2011, and \$752.1 million in 2012. The General Revenue share of this cost is approximately 41% of the total cost.

The Building and Procurement Commission estimates an increased General Revenue cost of \$113,000 in 2008 and \$465,000 in 2009 through 2012, for providing custodial services through contracted vendors at the increased minimum wage rate.

The Texas Department of Transportation estimates an increased cost of \$15.5 million in 2008 and \$29.6 million in 2009 through 2012. However, since these estimates are approximately 1% of TXDOT's annual average maintenance budget, it is assumed that the increased cost can be absorbed.

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: 303 Building and Procurement Commission, 601 Department of Transportation, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 320 Texas Workforce Commission, 529 Health and Human Services Commission, 530 Family and Protective Services, Department of, 539 Aging and Disability Services, Department of

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