

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 6, 2015

TO: Honorable René Oliveira, Chair, House Committee on Business & Industry

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB396 by McClendon (Relating to the state minimum wage, including adjustments based on the consumer price index and authorization for a county or municipality to establish a local minimum wage.), **As Introduced**

The fiscal implications of the bill are indeterminate but costs associated with the bill could be significant. The impact would largely be related to increased costs associated with employees who work for contracted entities. Several state agencies were surveyed about the impact of this legislation and examples are discussed below. Assuming current contracts and practices remain in place, costs associated with the bill could range from \$345 million to \$385 million in General Revenue Funds through the biennium ending August 31, 2017.

In calendar year 2016, the bill would require employers in the state to pay employees the greater of the federal minimum wage (currently \$7.25 per hour for non-exempt employees) or \$8.75 per hour. In calendar year 2017, the bill would require employers to pay employees the greater of the federal minimum wage or \$10.10 per hour. Beginning on January 1, 2018, the bill would require employers to pay employees the greater of the federal minimum wage or an "adjusted minimum wage." The adjusted minimum wage would be calculated by the Texas Workforce Commission no later than September 30th of each year. It would be based on the percentage increase, if any, in the Consumer Price Index over the preceding 12 month period ending on August 31. The bill would take effect on January 1, 2016.

According to analysis by the Legislative Budget Board (LBB) staff and the Texas Comptroller of Public Accounts (CPA), a small number of state employees make less than \$8.75 per hour. The cost of paying these employees \$8.75 per hour in fiscal year 2016 would not be fiscally significant. As of January 2015 there were 148,133 state agency employees, of which 1,229 received hourly compensation of less than \$10.10 per hour. The cost of paying these employees \$10.10 per hour in fiscal year 2017 is estimated to be \$1.6 million per fiscal year. This amount would include increased state contributions to the Employee Retirement System. Additional increases in the adjusted minimum wage based on increases in the Consumer Price Index would be likely to increase this cost starting in fiscal year 2018.

CPA and LBB did not have access to complete wage and salary information for agencies of higher education. Assuming a distribution of employee wages that is similar to the distribution among state agencies, the cost for higher education agencies would be \$2.2 million in fiscal year 2017. The cost to institutions could be higher or lower if their proportion of workers earning less than \$10.10 per hour was greater or less than the proportion earning less than that rate at state agencies. Additional increases in the adjusted minimum wage based on increases in the Consumer Price Index would be likely to increase this cost starting in fiscal year 2018.

Some state and higher education agencies have contracted with entities that employ staff who currently are paid below \$8.75 per hour. In some cases, the cost of raising these workers' wages to the rate required by the bill would be substantial. For example, according to the Health and Human Services Commission (HHSC), provider reimbursement rates for services to program clients would be impacted by the wage increase. HHSC estimates that the cost of the bill to HHSC, the Department of Aging and Disability Services, and the Department of State Health Services would be approximately \$77.0 million in General Revenue Funds and \$103.0 million in Federal Funds in fiscal year 2016. HHSC estimates that the cost would be approximately \$270.0 million in General Revenue Funds and \$361.0 million in Federal Funds in fiscal year 2017. Increases in the adjusted minimum wage based on increases in the Consumer Price Index would be likely to increase this cost starting in fiscal year 2018.

As another example, the Texas Department of Transportation (TXDOT) contracts with entities as part of its routine maintenance contract. Currently, routine maintenance workers are paid the federal minimum wage of \$7.25 per hour. By raising costs associated with these employees, TXDOT estimates that the bill would result in a cost of \$58.0 million in Other Funds in fiscal year 2016 and \$108.0 million in Other Funds in fiscal year 2017. Increases in the adjusted minimum wage based on increases in the Consumer Price Index would be likely to increase this cost starting in fiscal year 2018.

Local Government Impact

For local government entities, costs to implement the bill would depend on the current minimum wage of the local government and the number of employees of the local government currently earning a wage below the amount specified in the bill.

Based on a survey of local governments, the fiscal implication of the bill is not anticipated to be significant; however, there may be a greater impact to smaller counties and municipalities. The fiscal impact to local governments may increase depending on the adjustment of the minimum wage in the 2018.

According the Texas Municipal League, no significant fiscal implication is anticipated.

Source Agencies: 303 Facilities Commission, 304 Comptroller of Public Accounts, 320 Texas Workforce Commission, 323 Teacher Retirement System, 405 Department of Public Safety, 529 Health and Human Services Commission, 601 Department of Transportation, 696 Department of Criminal Justice, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 768 Texas Tech University System Administration, 783 University of Houston System Administration, 802 Parks and Wildlife Department

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