

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 19, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB475 by Reynolds (Relating to the 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, minimum costs associated with the bill could range from \$2.7 billion to \$3.0 billion in General Revenue Funds through the biennium ending August 31, 2019.

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 \$15.00 per hour. The bill would take effect on September 1, 2017

According to the Texas Comptroller of Public Accounts (CPA), as of February 2017 there were 152,109 state agency employees, of which 26,011 received hourly compensation of less than \$15.00 per hour. The cost of paying these employees \$15.00 per hour is estimated to be \$142.3 million per fiscal year. This amount would include increased state contributions to the Employee Retirement System.

CPA and the Legislative Budget Board (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 \$213.8 million. The cost to institutions could be higher or lower if their proportion of workers earning less than \$15.00 per hour was greater or less than the proportion earning less than that rate at state agencies.

Some state and higher education agencies have contracted with entities that employ staff who currently are paid below \$15.00 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, 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 would be approximately \$1.3 billion in General Revenue Funds and \$1.7 billion in Federal Funds 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. Increasing the wages of routine workers to \$15.00 would result in a 107 percent increase in labor costs under the contract. Based on a methodology

previously provided by TXDOT, raising costs associated with these employees could result in a cost of \$262.9 million in All Funds 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 greater of the federal minimum wage or \$15.00 per hour.

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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