

# OFFICE OF FISCAL ANALYSIS

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HB-5004

## AN ACT INCREASING THE MINIMUM FAIR WAGE. AMENDMENT

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### ***OFA Fiscal Note***

#### ***State Impact:***

Agency Affected	Fund-Effect	FY 20 \$	FY 21 \$
Various State Agencies	Various - Potential Cost	at least \$2.8 million	at least \$7.5 million
Various State Agencies	Various - Potential Cost	1.6 million	4.6 million
Various State Agencies	GF - Potential Savings	See Below	See Below

Note: Various=Various; GF=General Fund

#### ***Municipal Impact:***

Municipalities	Effect	FY 20 \$	FY 21 \$
Various Municipalities	STATE MANDATE <sup>1</sup> - Cost	See Below	See Below

### ***Explanation***

The amendment strikes the language in the underlying bill and the associated fiscal impact.

The amendment could result in increased compensation and contract costs to the state and municipalities. The amendment raises

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<sup>1</sup> State mandate is defined in Sec. 2-32b(2) of the Connecticut General Statutes, "state mandate" means any state initiated constitutional, statutory or executive action that requires a local government to establish, expand or modify its activities in such a way as to necessitate additional expenditures from local revenues.

the state minimum hourly wage from \$10.10 to \$11.00 on October 1, 2019; from \$11.00 to \$12.00 on September 1, 2020; from \$12.00 to \$13.00 on August 1, 2021; from \$13.00 to \$14.00 on July 1, 2022; and from \$14.00 to \$15.00 on June 1, 2023. The amendment indexes any future increases to annual changes in the employment cost index (ECI) beginning on January 1, 2024. This could result in total state costs of at least \$4.4 million in FY 20, \$12.1 million in FY 21, \$22.2 million in FY 22, and \$38.2 million in FY 23.

### **Contract Impact to State Agencies**

If the provisions of the amendment are interpreted to require various agencies to increase contracts with private providers, it will result in a cost to state agencies to accommodate an increase in the minimum wage and associated fringe benefit costs. The following agencies have human services contracts with private providers: the departments of Mental Health and Addiction Services (DMHAS), Children and Families (DCF), Social Services (DSS), Developmental Services (DDS)<sup>2</sup>, Correction (DOC), Housing (DOH), Rehabilitation Services, (DORS), Public Health (DPH), the Office of Early Childhood and the Judicial Department.

Based on a review of various agency contracts, the proposed increases are anticipated to result in a cost of at least \$1.2 million in FY 20, \$3.9 million in FY 21, \$7.9 million in FY 22, and \$17.3 million in FY 23.

These estimates do not include costs associated with Medicaid expenditures, which could increase for providers whose employee costs are factored into Medicaid rates.

In addition, the Department of Administrative Services has identified approximately 150 contracts that will be potentially

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<sup>2</sup> The amendment impacts DDS private provider costs in FY 23 because SA 18-5 increased the minimum wage paid to DDS funded providers to \$14.75 per hour by January 1, 2019.

impacted, resulting in increased annual contract costs estimated at \$450,000 in FY 20, and \$700,000 in FY 21, \$850,000 in FY 22 and \$1,000,000 in FY 23 as a result of the amendment.

### *Family Child Care Providers*

The amendment could result in increased costs of \$1.1 million in FY 20, \$2.9 million in FY 21, \$4.7 million in FY 22, and \$6.6 million in FY 23 associated with the Family Child Care Provider collective bargaining agreement, if the current provisions of the contract are maintained. The original agreement expired June 30, 2017; the estimate assumes a similar contract effective in FY 20. The original agreement specified the rate for unlicensed providers must be one-third of the state's minimum wage and reflect any related increases on January 1 of the years for which the contract is active. The payment for these providers is made through the Office of Early Childhood via the Care4Kids TANF/CCDF account.

### **Impact to State Assistance Programs**

Increasing the minimum wage could reduce participation levels in state assistance programs that have income eligibility requirements. Any savings associated with a reduction in state assistance will depend on the income limits for each program and the change in hourly wages, total hours worked, and the family size of program participants.

For reference, the average annual state Medicaid cost for an individual in HUSKY D is \$870 and \$1,860 for HUSKY A. The table below identifies the approximate number of hours various HUSKY eligibility groups could work per week at each hourly rate before becoming ineligible for the program due to exceeding income limits.

Hourly Rate	Weekly Hours				
	HUSKY D		HUSKY A		
	Adult without Dependents-Single	Adult without Dependents-Fam of 2	Parent/Caretaker-Fam of 2	Parent/Caretaker-Fam of 3	Pregnant Woman-Single
\$ 10.10	35	48	54	68	67
\$ 11.25	31	43	48	61	60
\$ 12.50	28	38	43	55	54
\$ 13.75	26	35	39	50	49
\$ 15.00	23	32	36	45	45

### State Employee Compensation Impact

An increase in the state minimum wage will have a fiscal impact on the compensation and fringe benefits provided to state employees. The employees impacted are primarily summer workers, seasonal workers, and student and senior workers. It is estimated that state employee compensation and fringe benefit costs<sup>3</sup> excluding the constituent units will increase by at least \$225,000 in FY 20, \$350,000 in FY 21, \$425,000 in FY 22, and \$500,000 in FY 23.

The amendment results in a potential combined cost to the higher education constituent units of approximately \$1.4 million in FY 20 and \$4.2 million in FY 21 if the number of employees and hours each works remains unchanged. As nearly all the affected constituent unit employees are students, the constituent units may choose to keep constant the total amount of institutional funds dedicated to student workers, which would result in a redistribution of these funds among students, or to increase such amount as described above.

### Municipal Impact

The amendment also increases costs to municipalities that employ minimum wage workers. These costs can vary significantly based on the size of the municipality. When fully phased in, the amendment could result in costs as follows:

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<sup>3</sup> Employers are liable for 6.2% Social Security and 1.45% in Medicare taxes.

Large City (pop: 100,000+): \$800,000 - \$1.0 million

Medium Sized City (pop: 50,000 – 80,000): \$400,000 - \$600,000

Small City: (pop: 30,000 – 50,000): \$100,000 - \$300,000

Small Town (pop: less than 20,000): Less than \$50,000

As the amendment requires a phase in of the minimum wage increase, these costs would not be incurred until FY 24. The chart<sup>4</sup> below illustrates how the phase in could impact three municipalities:

	FY 20 Est. \$	FY 21 Est. \$	FY 22 Est. \$	FY 23 Est. \$	FY 24 Est. \$
Bridgeport	75,000	255,300	460,600	714,291	1,000,000
Manchester	39,400	135,600	244,700	379,600	550,400
Torrington	12,300	42,400	76,500	118,600	172,000

### **Other**

The amendment may result in additional costs to some municipalities and state agencies due to wage compression. This refers to an increase in wages that are currently slightly above a new minimum wage due to an increase in the minimum wage.

The amendment makes other changes, including adjustments to the tip credit and requirements related to the Department of Labor, which are not anticipated to result in a fiscal impact to the state or municipalities.

### **The Out Years**

The annualized fiscal impact to the state and municipalities would continue into the future subject to the number of workers and hours employed, and the minimum wage as adjusted annually by the federal ECI beginning in 2024.

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<sup>4</sup>Manchester's data for all years is based on payroll information reported by the town. The FY 24 figures for Bridgeport and Torrington represent the estimated full cost of a \$15/hour minimum wage, as reported by those towns. Costs for FY 20 – FY 23 for Bridgeport and Torrington assumes that the phase in has the same proportional impact as estimated for the City of Manchester.

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*The preceding Fiscal Impact statement is prepared for the benefit of the members of the General Assembly, solely for the purposes of information, summarization and explanation and does not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.*