DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 03/29/2012
POSITION: Oppose

BILL NUMBER: AB 1439
AUTHOR: Alejo, Lius

BILL SUMMARY: Minimum wage: annual adjustment.

This bill would require the state's minimum wage to automatically adjust annually, beginning January 1, 2013, based on the California Consumer Price Index (CPI). Additionally, this bill would prohibit adjusting the wage downward and would require the Industrial Welfare Commission (Commission), within the Department of Industrial Relations (DIR), to publicize the adjustments.

FISCAL SUMMARY

This bill would result in additional costs to the state estimated at $8.4 million ($6.0 million General Fund) in 2012-13 and $25.4 million ($18.4 million General Fund) in 2013-14 because certain programs within state government employ individuals who receive minimum wage for hours worked. Although it is difficult to determine future year costs related to the automatic adjustment of the minimum wage because the rate of inflation is unknown, based on Department of Finance (Finance) CPI projections, the minimum wage would increase from $8.00 per hour to $8.15 per hour on January 1, 2013 and from $8.15 per hour to $8.30 per hour on January 1, 2014.

Additionally, a greater minimum wage would impact the amount of Unemployment Insurance and Disability Insurance benefit payments paid to claimants. Unemployment benefits would increase by $1.4 million in 2012-13 and $5.3 million in 2013-14 (Unemployment Fund). Disability benefit payments paid out would increase by $900,000 in 2012-13 and $3 million in 2013-14 (Unemployment Compensation Disability Fund). Contributions from employers and workers to the Unemployment Fund and the Unemployment Compensation Disability Fund would be negligible.

Finally, the DIR would incur General Fund expenses of approximately $400,000 annually to publicize automatic increases to the minimum wage.

COMMENTS

The Department of Finance opposes this bill for the following reasons:

- This bill would result in significant costs to the General Fund.
- The increases to minimum wage would occur automatically without consideration of all economic factors.
- While the bill would prohibit increasing the minimum wage in years directly following a year of deflation, it would allow for increases when inflation occurs subsequent to a year of deflation, without exception.
- This bill would further increase the cost to California businesses struggling to recover from the recession.

Analyst/Principal	Date	Program Budget Manager	Date
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Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______
			Position Disapproved_______

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COMMENTS (continued)

This bill seeks to eliminate the loss of purchasing power for minimum wage workers by requiring an annual adjustment in the minimum wage based on the change in the CPI, as defined. This bill would also specify that the increase shall be rounded to the nearest five cents and prohibits decreases to the minimum wage in years of deflation. Additionally, this bill would require the DIR to publicize the automatically adjusted wage. Finally, this measure would allow the minimum wage to be increased beyond the amount resulting from the specified calculation except in years directly following a year of deflation.

Existing law sets the state minimum wage at $8.00 per hour.

ANALYSIS

1. Programmatic Analysis

   Existing law establishes a minimum hourly wage of $8.00. Existing law also establishes the Commission to review the adequacy of the minimum wage at least once every two years; however, no funding is included in the budget to support the Commission. Members, appointed by the Governor, serve four-year terms and receive $100 per diem each day they meet on official business.

   This bill would require an annual adjustment in the minimum wage based on the change in the CPI, as defined, and would specify that the increase shall be rounded to the nearest five cents. This bill further specifies that the minimum wage may not be reduced in years when the average percentage of inflation from the previous year is negative. Additionally, this measure would allow the minimum wage to be increased beyond the amount resulting from the specified calculation except in years directly following a year of deflation. Finally, this bill would require the Commission to publicize the automatically adjusted minimum wage; presumably this would be accomplished through publication of wage orders by the DIR.

2. Fiscal Analysis

   In addition to impacts for individuals and private businesses, increases to the minimum wage result in increased costs to various state entities as certain programs employ individuals that currently receive minimum wage for hours worked. It is difficult to determine future year costs related to automatic increases to the minimum wage because the rate of inflation is unknown. However, based on Finance CPI projections, the minimum wage would increase from $8.00 per hour to $8.15 per hour on January 1, 2013 and from $8.15 per hour to $8.30 per hour on January 1, 2014. These changes to the minimum wage would result in the following increased costs:

   Department of Social Services (DSS)

   At the time of this analysis, the DSS was unable to provide a fiscal estimate but Finance estimates that an increase in the minimum wage as described above would result in increased costs for the In-Home Supportive Services program of $650,000 ($207,000 General Fund) in 2012-13 and $2.0 million ($640,000 General Fund) in 2013-14.

   Department of Developmental Services (DDS)

   At the time of this analysis, the DDS was unable to provide a fiscal estimate but Finance estimates that an increase in the minimum wage as described above would result in increased costs of $6.5 million ($4.6 million General Fund) in 2012-13 and $19.4 million ($14 million General Fund) in 2013-14.

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ANALYSIS (continued)

Department of Forestry and Fire Protection

An increase in the minimum wage as described above would result in increased General Fund costs of $1.1 million in 2012-13 and $3.4 million in 2013-14. Additionally, an increase in the minimum wage could drive a marginal increase in cost to the Emergency Fund (E-Fund) to the extent that there are changes to unplanned overtime. This impact cannot be estimated as many factors, including the severity of the high fire season, affect these calculations. Any increase to the E-Fund has a corresponding impact to the General Fund.

California Conservation Corps

An increase in the minimum wage as described above would result in increased costs of $196,000 ($116,000 General Fund) in 2012-13 and $584,000 ($345,000 General Fund) in 2013-14.

Department of Aging

Any increase in the state minimum wage will result in a decrease in the number of positions funded by the Title V Senior Community Service Employment Program because the federal funds provided are capped. An increase from $8.00 per hour to $8.15 per hour would result in the inability to fund approximately 9 positions.

Other Impacts

The DIR would incur General Fund costs of approximately $400,000 annually to publicize the increase in minimum wage and subsequent annual adjustments. This cost would include advertising the new minimum wage orders in seven news publications statewide and printing/mailing one-page minimum wage orders to approximately 815,000 employers.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2011-2012	FC	2012-2013	FC	2013-2014	Fund Code
9901/Var Depts	SO	No	A	--	C	6,000	C	18,400	0001
9901/Var Depts	SO	No	A	--	C	2,400	C	7,000	0994
7100/EDD	LA	No	A	--	C	1,400	C	5,300	0871
7100/EDD	LA	No	A	--	C	900	C	3,000	0588
7350/DIR	SO	No	A	--	C	400	C	400	0001

Fund Code	Title
0001	General Fund
0588	Unemployment Compensation Disability Fd
0871	Unemployment Fund
0994	Other Unclassified Funds