

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 03/11/2015  
POSITION: Oppose

BILL NUMBER: SB 3  
AUTHOR: Leno, Mark

**BILL SUMMARY: Minimum wage: adjustment**

This bill increases the minimum wage as follows:

- \$11.00 per hour, beginning January 1, 2016.
- \$13.00 per hour, beginning July 1, 2017.

This bill would also add provisions to increase the minimum wage according to inflation beginning January 1, 2019.

**FISCAL SUMMARY**

In addition to impacts on individuals and California businesses, increasing the minimum wage will result in increased costs to various state entities for paying the higher minimum wage of at least \$393.6 million (\$129.2 million General Fund) in 2015-16, \$959.1 million (\$407.8 million General Fund) in 2016-17, and \$3.4 billion (\$1.2 billion General Fund) in 2017-18.

The Department of Industrial Relations (DIR) indicates it would incur costs of \$500,000 Labor Enforcement Compliance Fund to print and mail updated wage orders to approximately 815,000 employers each time that the minimum wage is increased.

**COMMENTS**

The Department of Finance is opposed to this bill because it results in significant, unbudgeted costs to the General Fund.

Further, Finance notes the net impact of an increased minimum wage on California’s economy and state budget is likely to be negative. For the economy, losses from higher production costs to businesses would be partially offset by the consumption boost from wealthier minimum wage workers, but would overall lead to slower employment growth. This would lead to slower personal income growth, and an anticipated negative impact on taxes collected, especially since the tax structure in California is highly progressive and lower income individuals pay little to no income taxes. Sales taxes under the provisions of this bill may increase, but they are not anticipated to increase enough to offset lower personal income taxes. Although the state would save some money on lower provision of benefits under some state funded programs, the increased expenses from paying state workers would more than offset those gains.

According to the author's office, minimum wages have not kept pace with the cost of living, which has resulted in a decline in purchasing power for minimum wage workers. This bill is intended to stabilize the purchasing power of minimum wage workers and help lift Californians out of poverty.

Analyst/Principal (0741) N. Daniel	Date	Program Budget Manager Kristin Shelton	Date
Department Deputy Director			Date
Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
BILL ANALYSIS			Form DF-43 (Rev 03/95 Buff)

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**ANALYSIS**

## 1. Programmatic Analysis

**Existing law** establishes a minimum hourly wage of \$9.00 with a scheduled increase to \$10.00 an hour beginning January 1, 2016.

Existing law also establishes the Industrial Welfare Commission (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. The Commission has been inactive since 2004, and the majority of its functions have been assumed by DIR's Division of Labor Standards and Enforcement.

**This bill** increases the minimum wage to \$11.00 per hour beginning January 1, 2016, and \$13.00 per hour beginning July 1, 2017. This bill also requires the minimum wage to be increased annually based on inflation starting in January of 2019. Inflation adjustments would be calculated annually by multiplying the minimum wage in effect on December 31 of the previous year by the percentage of inflation that occurred during that year and adding that product to the minimum wage.

California's businesses note that the increase from \$10.00 per hour to \$11.00 per hour represents a 10 percent increase in costs to businesses that currently pay employees at the minimum wage. The increase from \$10.00 per hour to \$13.00 per hour represents a 30 percent increase. Additionally, costs for salary driven benefits such as workers compensation and overtime payments would increase.

## 2. Fiscal Analysis

Increasing the minimum wage will result in increased costs to various state entities. Below is a list of estimated costs:

- Department of Health Care Services

The Department anticipates increased costs overall in the Medi-Cal program, because this bill will result in increased staffing costs for long-term care facilities beyond any savings to the program from reduced eligibility. The Department estimates costs arising from this bill will be \$14.7 million (\$2.4 million General Fund and \$12.3 other funds) in 2015-16, \$29.6 million (\$5.0 million General Fund and \$24.6 other funds) in 2016-17, and \$161.4 million (\$28.3 million General Fund and \$133.1 million other funds) in 2017-18. These estimates take into consideration a reduction in Medi-Cal program costs as a result of some individuals who are currently enrolled in that program no longer being eligible under the new wage structure. Because Medi-Cal eligibility is based on an individual's income as a percentage of the federal poverty level, wage increases, particularly among lower wage-earners, will disqualify some individuals from eligibility in Medi-Cal. This reduction in Medi-Cal costs is offset by increased costs from higher wages for workers in long-term care facilities, such as skilled nursing facilities. When the state or federal government creates new mandates on these providers, the Medi-Cal program is required to reimburse for those costs.

- Department of Social Services

The Department estimates costs arising from this bill will be \$82 million General Fund in 2015-16, \$313 million million General Fund in 2016-17, and \$718 million General Fund in 2017-18. Impacts to other funds each year are expected to be similar, but are still being quantified. The majority of higher costs are from higher required wages paid to In-Home Supportive Services workers. General Fund estimates include an offset in CalWORKS program costs as a result of some individuals who

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are currently enrolled in that program no longer qualifying for the same level of benefits under the new wage structure.

- Department of Developmental Services

The Department anticipates costs resulting from minimum wage increases for employees providing services to regional center consumers. These costs are estimated to be \$72.2 million (\$36.1 million General Fund and \$36.1 million other funds) in 2015-16, \$144.8 million (\$72.4 million General Fund and \$72.4 million other funds) in 2016-17, and \$773.5 million (\$438.5 million General Fund and \$335 million other funds) in 2017-18.

- Department of Fish and Wildlife

The Department estimates costs arising from increasing wages for seasonal and intermittent staff will be \$62,000 (\$17,000 General Fund and \$45,000 other funds) in 2015-16, \$123,000 (\$34,000 General Fund and \$89,000 other funds) in 2016-17, and \$388,000 (\$109,000 General Fund and \$279,000 other funds) in 2017-18.

- Department of Forestry and Fire Protection (Cal Fire)

Cal Fire estimates increased base wage costs for Fire Fighter I staff (seasonal and intermittent) of \$7.1 million General Fund in 2015-16, \$14.2 million General Fund in 2016-17, and \$26 million General Fund in 2017-18. Additionally, Cal Fire also estimates an increase in cost to the Emergency Fund due to changes in unplanned overtime. The actual impact cannot be accurately estimated at this time since many factors, including the severity of the high fire season affect these calculations.

- California Conservation Corps

The Conservation Corps estimates an increase in minimum wage staffing costs of \$1.5 million (\$1.3 million General Fund and \$226,000 other funds) in 2015-16, \$2.9 million (\$2.6 million General Fund and \$266,000 other funds) in 2016-17, and \$8.6 million (\$7.8 million General Fund and \$799,000 other funds) in 2017-18.

- California Science Center

The California Science Center estimates an increase in minimum wage staffing costs of \$75,000 General Fund in 2015-16, \$150,000 General Fund in 2016-17, and \$528,000 General Fund in 2017-18.

- Department of Parks and Recreation

The Department estimates an increase in wage costs for seasonal and intermittent staff of \$455,000 (\$190,000 General Fund and \$265,000 other funds) in 2015-16, \$910,000 (\$380,000 General Fund and \$530,000 other funds) in 2016-17, and \$3.1 million (\$1.3 million General Fund and \$1.8 million other funds) in 2017-18.

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**ANALYSIS** (continued)

- Department of Aging

While the initial fiscal impact of the California minimum wage increase to the Department's state operations would likely be negligible, fiscal impacts at the local level to the 14 Area Agencies on Aging with federally-funded Title V Senior Community Service Employment Program projects are anticipated to be significant as these projects are only funded to pay clients at the federal minimum wage, creating a General Fund pressure. Absent additional state funding, the proposed wage increase would result in the loss of 203 participation slots, and potentially more depending on California Consumer Price Index increases. The slot reductions could jeopardize the availability of federal Title V program as the lack of funding could result in Area Agencies on Aging eliminating community services programs.

- Employment Development Department (EDD)

Unemployment Insurance (UI) Fund: Using data from the October 2014 UI Fund Forecast, EDD projects that the increase in additional benefits paid would be \$115 million in 2016, \$303 million in 2017, \$491 million in 2018, and \$536 million in 2019. This represents additional percentage increases in current benefit payment estimates as follows: 2.0 percent in 2016, 5.0 percent in 2017, 8.0 percent in 2018, and 8.7 percent in 2019.

The UI Fund is financed by employer contributions. Based on the current \$7,000 UI taxable wage ceiling, the increase in minimum wage is expected to have no measurable impact on additional benefit contributions.

Disability Insurance (DI) Fund: Based on the October 2014 DI Fund Forecast, the estimated additional DI benefits paid, as a result of the minimum wage increases, are projected to be \$100 million in 2016, \$150 million in 2017, \$312 million in 2018, and \$347 million in 2019.

The DI fund is financed by employee contributions based on the contribution rate set by EDD and the taxable wage limit. The taxable wage ceiling is projected to be \$108,160 in 2016, \$112,698 in 2017, \$117,615 in 2018, and \$122,815 in 2019. Based on the October 2014 revise, the contribution rate is projected to be 1.0 percent in 2016, 1.0 percent for 2017, and is projected to remain at 1.1 percent from 2018 through 2019. The estimated additional DI contributions paid, as a result of the minimum wage increases, are projected to be \$173 million in 2016, \$414 million in 2017, \$649 million in 2018, and \$730 million in 2019. Therefore, it is estimated that the additional DI net employee contributions generated by SB 3 will be greater than the associated additional DI net benefits.

- Department of Education (Education)

Any minimum wage costs incurred for the child care programs would increase reimbursement rates. Education anticipates annual costs pressures between \$100 million and \$350 million General Fund as a result of minimum wage increases for child care worker salaries for which the department reimburses the costs. The number of students able to participate in these programs would be limited to the extent additional funding is not provided. The actual fiscal impacts cannot be accurately estimated at this time since many factors including the child participation rate, varied

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regional salaries for child care workers across the state, and the utilization of other district level contracts affect these calculations.

In addition, DIR would incur costs of \$500,000 from the Labor Enforcement and Compliance Fund in 2015-16 and again in 2016-17, for publicizing the increase in minimum wage. This cost would include advertising the new minimum wage orders in seven news publications statewide targeting major demographic regions and printing/mailing one-page minimum wage orders to approximately 815,000 employers including costs of materials, printing, and postage.

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)						Fund Code
	LA	(Dollars in Thousands)						
	CO	PROP						
	RV	98	FC	2014-2015	FC	2015-2016	FC	2016-2017
4260/Hlth Care	SO	No	C	--	C	2,483	C	4,966 0001
4260/Hlth Care	SO	No	C	--	C	12,295	C	24,593 0890
5180/Social Svcs	SO	No	C	--	C	82,000	C	313,000 0001
5180/Social Svcs	SO	No		----	See Fiscal Summary	----		0890
4300/Develop Svcs	SO	No	C	--	C	36,094	C	72,398 0001
4300/Develop Svcs	SO	No	C	--	C	36,094	C	72,398 0995
3600/FishWild	SO	No	C	--	C	17	C	34 0001
3600/FishWild	SO	No	C	--	C	10	C	20 6051
3600/FishWild	SO	No	C	--	C	1	C	2 3103
3600/FishWild	SO	No	C	--	C	34	C	67 0200
3540/ForestFire	SO	No	C	--	C	7,112	C	14,224 0001
3340/Cons Corps	SO	No	C	--	C	1,250	C	2,605 0001
3340/Cons Corps	SO	No	C	--	C	132	C	72 3063
3340/Cons Corps	SO	No	C	--	C	94	C	194 8080
3100/Science Cntr	SO	No	C	--	C	75	C	150 0001
3790/ParksRec	SO	No	C	--	C	190	C	380 0001
3790/ParksRec	SO	No	C	--	C	265	C	530 0392
4170/Dept Aging	SO	No		----	See Fiscal Summary	----		0890
7100/EDD	SO	No	C	--	C	115,000	C	303,000 0871
7100/EDD	SO	No	C	--	C	100,000	C	150,000 0588
1614/Misc Revenue	RV	No	L	--	U	173,000	U	414,000 0588
6100/Dep of Educ	SO	No		----	See Fiscal Summary	----		0001
7350/DIR	SO	No	C	--	C	500	C	500 3152

Fund Code	Title
0001	General Fund
0200	Fish and Game Preservation Fund
0392	Parks and Recreation Fund, State
0588	Unemployment Compensation Disability Fd
0871	Unemployment Fund
0890	Trust Fund, Federal
0995	Reimbursements
3063	Responsibility Area Fire Prevention Fund
3103	Hatchery and Inland Fisheries Fund
3152	Labor Enforcement and Compliance Fund
6051	SafeDrinkWtr,WtrQual-Sup,FldCtrl,RvrCstl
8080	Clean Energy Job Creation Fund