DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 03/28/2016
POSITION: Support

BILL NUMBER: SB 3
AUTHOR: Leno, Mark

BILL SUMMARY: Minimum wage: adjustment

This bill provides for a series of scheduled increases to the state's minimum wage such that, depending on economic and budgetary conditions, the minimum wage would reach $15.00 per hour by January 1, 2022, after which it would be indexed to inflation. The increases provided for in this bill are delayed by one year for small businesses. This bill includes provisions for the temporary delay of scheduled increases in the event of an economic downturn or certain budgetary conditions, as specified. Lastly, this bill also provides for sick days for In-Home Supportive Services providers and a workgroup to implement a paid sick-leave program for these providers.

FISCAL SUMMARY

In addition to providing higher wages to low income workers, increasing labor costs, and impacting cost of living in the state, increasing the minimum wage will result in increased costs of approximately $19 million General Fund in the first year of implementation and $3.6 billion General Fund once fully implemented.

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 statewide each time the minimum wage is increased. This increase could also result in increased unemployment insurance and disability insurance benefit payments for the Employment Development Department, but would potentially result in reduced costs for other government funded benefit programs as fewer recipients would qualify on the basis of income.

COMMENTS

The Department of Finance supports this bill because it would provide a careful and responsible way to increase the minimum wage, furthering economic equality in California. This proposal would initially increase wages for about 2 million workers, with that number growing to an estimated 4 million workers at full implementation. This measure also provides some flexibility if economic or budgetary conditions change, giving the Governor the authority to enact temporary pauses in the new minimum wage schedule based on job losses or if a deficit is projected in future state budgets.

ANALYSIS

1. Programmatic Analysis

   Existing law establishes a minimum hourly wage of $10.00 an hour.

   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 Division of Labor Standards and Enforcement within DIR.

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

ANALYSIS (continued)

This bill increases the minimum wage for employers with 26 or more employees as follows:

- $10.50 per hour, beginning January 1, 2017.
- $11.00 per hour, beginning January 1, 2018.
- $12.00 per hour, beginning January 1, 2019.
- $13.00 per hour, beginning January 1, 2020.
- $14.00 per hour, beginning January 1, 2021.
- $15.00 per hour, beginning January 1, 2022.

For small businesses (25 or fewer employees) increases are implemented one year after each increase for the larger employers.

The bill defines an employer as any person who directly or indirectly, or through an agent or any other person, employs or exercises control over the wages, hours, or working conditions of any person or entity, including private business as well as municipalities, the state, and any political subdivisions thereof.

While the initial increase to $10.50 per hour is not subject to suspension, the Governor may pause any future scheduled increase if certain economic or budgetary conditions are met. If an increase is paused, the effective date of all future remaining scheduled increases is pushed back one year. The Governor will give an initial determination to the Legislature by August 1 of each year and a final determination by September 1, prior to a January 1 effective date of any increase or temporary suspension.

- Economic Suspension Criteria - If seasonally adjusted statewide job growth for either the prior three months or the prior six months combined is negative and retail sales receipts for the prior 12 months combined are negative, the Governor may make a determination to pause an increase.
- Budgetary Suspension Criteria - If in any year from the current budget year to two additional years is forecasted to be in deficit when including the next scheduled minimum wage increase, the Governor may make a determination to pause the increase. A deficit would be anticipated when the operating reserve is projected to be negative by more than 1 percent of annual revenues, currently about $1.2 billion. This budget off ramp can only be used twice.

The minimum wage will be indexed for inflation beginning the first January after small business are at $15 per hour, which would be in 2023 according to the schedule. There will be no decreases in the minimum wage for negative inflation and the bill provides for an increase ceiling of 3.5 percent. Any increase resulting from the indexing will be rounded to the nearest 10 cents.

This bill would also implement sick days for In-Home Supportive Services (IHSS) providers as follows:

- One sick day, beginning July 1, 2018.
- Two sick days, beginning July 1 after the $13 minimum wage takes affect, scheduled for 2020.

ANALYSIS (continued)

- Three sick days, beginning July 1 after the $15 minimum wage takes affect, scheduled for 2022.

The bill also states that the Department of Social Services, in consultation with stakeholders, shall convene a workgroup to implement paid sick leave for IHSS providers by November 1, 2017. The Department must also issue guidance, such as an all-county letter by December 1, 2017.

2. Fiscal Analysis

Increasing the minimum wage will result in increased costs to various state entities, as follows:

- Department of Social Services - IHSS Providers and CalWORKs

  The Department estimates costs arising from this bill will be $21 million General Fund in the first year of implementation, with cumulative costs of $1.8 billion General Fund at full implementation for IHSS providers. (Approximately $228 million of this total at full implementation comes from IHSS sick leave). The Department also estimates General Fund savings of $13 million the first year of implementation and a cumulative savings of $185 million at full implementation, as a result of some individuals who are currently enrolled in CalWORKs no longer qualifying for the same level of benefits under the new wage structure.

  The IHSS estimate is based on the Governor's Budget cost estimate for the $9 - $10 increase currently authorized in statute and assumes this proportional increase of costs would apply and be additive for each subsequent increase. The estimate assumes annual caseload and provider count growth of 1.78 percent, and hours/case growth of 3.12 percent each year.

  The IHSS paid sick leave estimate is based on the Governor's Budget estimate for the $9 - $10 increase currently authorized in statute. It assumes an increase in the minimum wage each subsequent year until January 2022 when the minimum wage reaches $15 per hour. The estimate assumes annual caseload and provider count growth of 1.78 percent, and hours/case growth of 3.12 percent each year. The estimate assumes all costs related to paid sick leave for IHSS providers will be funded solely with General Fund.

  The CalWORKs estimate is based on the Governor's Budget cost estimate for the $9 - $10 increase currently authorized in statute and assumes this proportional increase of costs would apply and be additive for each subsequent increase. As the minimum wage increases, the state achieves savings due to decreased grant, administration, and services costs for cases that income off the program, and decreased grant levels for cases that do not income off the program. No savings related to child care is assumed because income-off parents would still be eligible for child care. The estimate assumes 21 percent of CalWORKs cases involve a working adult. The estimate assumes 2,036 cases will income off at a $10.50 minimum wage, increasing to 14,618 cases at $15.

- Department of Developmental Services (DDS)

  DDS anticipates costs resulting from minimum wage increases for employees providing services to regional center consumers. These costs are estimated to be $16 million General Fund in the first year of implementation and $1.7 billion at full implementation.

ANALYSIS (continued)

The DDS estimate is based on the Governor's Budget cost estimate for the $9 - $10 increase currently authorized in statute and assumes this proportional increase of costs would apply and be additive for each subsequent increase. This percentage was then applied to the 85 percent of the purchase of services costs that is assumed to be associated with staff costs. The General Fund share of purchase of services costs is approximately 60 percent of the total costs.

- Civil Service Employee Costs

  Approximately 34,000 state civil service employees would be impacted under the proposed minimum wage schedule, with estimated costs of $6 million in the first year of implementation and $236 million at full implementation. This estimate includes maintaining a five percent salary difference between subordinate and supervisory state classifications to avoid salary compaction.

- Department of Health Care Services - Medi-Cal Savings

  The Department anticipates savings of $11 million the first year of implementation and approximately $163 million at full implementation. 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.

  The Medi-Cal estimates model incorporates empirical findings from West, Reich, et al., regarding expected reductions in non-elderly Medicaid populations in response to a 10 percent increase in a state’s minimum wage. Therefore, Finance’s model assumes a standard reduction in all of Medi-Cal’s non-elderly aid codes. The estimated reductions in caseload generates General Fund savings in the Medi-Cal program. However, the Medi-Cal program reimburses long-term care facilities using a cost-based methodology, which incorporates the costs of state and local mandates such as increases in the minimum wage and overtime costs for waiver personal care services.

- Employment Development Department (EDD)

  Unemployment Insurance (UI) Fund - Using data from October 2015 forecasts, EDD projects that the benefits paid would increase from $79 million during the first year of implementation to $614 million at full implementation. The benefit increase described would occur in the year following the minimum wage increase because UI claims are based on wages from the first four of the last six completed quarters of wages.

  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 - Using data from October 2015 forecasts, EDD projects that the net increase in benefits (taking into account increases in benefit contributions) would not be significant in the first year of implementation and would be approximately $400 million at full

ANALYSIS (continued)

implementation. Based on this analysis it is estimated that the DI Trust Fund would remain solvent.

- Department of Industrial Relations (DIR)

  DIR would incur costs of $500,000 from the Labor Enforcement and Compliance Fund for publicizing the increase in minimum wage. This includes the cost of 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.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	(Fiscal Impact by Fiscal Year) (Dollars in Thousands) 2015-2016	FC	2016-2017	FC	2017-2018	Fund Code
4260/Hlth Care	SO	No		----- See Fiscal Summary -----					0001
5180/Social Svcs	SO	No		----- See Fiscal Summary -----					0890
4300/Develop Svcs	SO	No		----- See Fiscal Summary -----					0995
7100/EDD	SO	No		----- See Fiscal Summary -----					0871

Fund Code	Title
0001	General Fund
0871	Unemployment Fund
0890	Trust Fund, Federal
0995	Reimbursements