Local Mandate Fiscal Impact Estimate
Kentucky Legislative Research Commission
2015 Regular Session

Part I: Measure Information

Bill Request #: 891

Bill #: HB 2

Bill Subject/Title: An ACT relating to wages.

Sponsor: Representative Greg D. Stumbo

Unit of Government: **x** City **x** County **x** Urban-County
x Charter County **x** Consolidated Local **x** Unified Local Government

Office(s) Impacted: Human resources offices

Requirement: **x** Mandatory ___ Optional

Effect on
Powers & Duties: **x** Modifies Existing **x** Adds New **x** Eliminates Existing

Part II: Purpose and Mechanics

Section 1 of HB 2 amends KRS 337.010 to exclude from the definition of "employee" those employees of retail stores, service industries, hotels, motels, and restaurant operations whose average annual gross volume of sales for the past 5-year period is **less than $500,000,** excluding excise taxes at the retail level or, if the employee is the parent, spouse, child, or other member of his or her employer's immediate family.

HB 2, Section 2, amends KRS 337.275 to raise the minimum hourly wage requirement from the current $7.25 to not less than: $8.20 on July 15, 2015; $9.15 on July 1, 2016; and $10.10 on July 1, 2017.

In Sections 3 and 4, HB 2 defines the meaning of "equivalent jobs" for the purpose of establishing pay equity, relating to sex, race or national origin. It would prohibit discrimination based on race, sex, or national origin for work in "equivalent" jobs, or paying lower wages to employees working in a job dominated by employees of a particular race, sex, or national origin at a rate less than the rate at which the employer pays employees in another job that is dominated by employees of the opposite sex or of a different race or national origin for work on equivalent jobs (Section 4). The bill provides for allowable wage differentials based on merit, seniority, productivity, and other bona fide factors not related to race, gender, or national origin.

Section 5 identifies specific requirements regarding administrative regulations necessary to effect the provisions of Section 4 of the bill.

Section 6 provides that administrative regulations required in Section 5 be promulgated on or before July 1, 2016.

Section 7 provides that Section 4 takes effect on July 1, 2017.

Part III: Fiscal Explanation, Bill Provisions, and Estimated Cost

The fiscal impact of HB 2 on local government is expected to range from minimal to significant over a three year period. The degree to which cities would be positively or negatively impacted may depend on whether costs incurred will be offset by the collection of additional payroll taxes as a percentage of payroll paid. In regard to the establishment of pay equity, the fiscal impact of HB 2 on local government is indeterminable.

Increase in Minimum Wage Provisions

Presently, about half the states have minimum wage laws above the current federal minimum. In Kentucky and elsewhere, most workers receiving base pay are, in fact, paid slightly more than the minimum wage ($7.25) but often less than $8.20. The Kentucky League of Cities (KLC) estimates the statewide cost of increasing the minimum wage to city employees.

In year one, with a minimum wage of $8.20, KLC estimates the additional cost to cities would be $70,000. In year two, with a minimum wage of $9.15, costs would increase by $500,000, and by year three, with a minimum wage of $10.10, costs would increase to $1.5 million*.

KLC also looked at four sample cities paying base wages between $8.00 and $9.13. Below are projected increases in costs based on the increase in minimum wage in each of the three years provided for in the bill.

Sample City Population Range	Year 1: Min. wage $8.20	Year 2: Min. wage $9.15	Year 3: Min. wage $10.10
20,000-99,999	$0	$18,528	$56,899
8,000-19,999	$1,512	$17,338	$31,752
3,000-7,999	$0	$21,736	$63,627
1,000-2,999	$2,288	$2,288	$48,048

An LRC staff economist estimates the wage costs for all units of local government to be approximately $1 million in the first year, $3.2 million in year two, and $5 million in the third year with implementation of HB 2 minimum wage increases. The economist reviewed data regarding local government salaries from the 2012 Current Population Survey's Merged Outgoing Rotations Group (MORG) file**.

As for the revenue side, KLC stated that some cities would experience a significant positive net impact if HB 2 were passed. Those cities that have payroll taxes as a percentage of wages paid would collect more in tax revenues than they would expend for the mandated increases in their own employees**. KLC projects that cities collectively would see revenue increases of about $1 million in the first year, $3.9 million in the second year (or $2.9 million more compared to year 1), and $7.4 million in the third year (or $3.5 million more compared to year 2) for their occupational license taxes**. Cities below 1,000 population cannot levy a payroll tax on a percentage basis, unless they levied one on a percentage basis prior to the classification reform legislation. Of course, they could increase their fee, but that would require an ordinance change. **Therefore, it is important to note that most cities would be net winners under this proposal (where the additional revenues exceed the additional expenditures), but some cities would be net losers (mandated expenditures are increased but revenues are not).**

KLC and the LRC staff economist include estimates of the cost of wage increases to local governments and revenue impacts. However, these estimates do not include secondary impacts that would result in additional expenses or additional revenue for local governments. Such secondary effects may include:

> A "wage push" effect whereby employees earning wages more than the previous minimum wage request and receive salary increases corresponding to the new minimum wage;
> Increased costs due to higher payments by local governments to the County Employee Retirement System (CERS) due to higher employee salaries; and
> A rise in wages might reduce the impact and costs of local social and health services.

If there was a beneficial effect on employee morale as a consequence of the "pay raises," there might be an increase in productivity or a decrease in turnover. There would be some increase in the amount of payroll tax collected by local governments as minimum wage earners' incomes increase.

Addition of Pay Equity Provisions

The degree of impact relating to Sections 3 through 5 of HB 2 would primarily be a function of the extent to which pay would have to be adjusted in jobs dominated by employees of a particular sex, race, or national origin, when those jobs, while dissimilar, are equivalent in skill, effort, responsibility, and working conditions. Local governments could incur an initial expense through the process of analyzing the jobs or occupations in the organizational units that are dissimilar but equivalent in skill, effort, responsibility, and working conditions, identifying those that are dominated by employees of a particular sex, race, or national origin, and reviewing the pay of the affected employees holding the equivalent jobs.

The amount of expense incurred would be a function of the number of jobs or occupations and affected employees in the organization. The Kentucky League of Cities has indicated that:

> "The greatest financial impact will be on larger cities with many employees in similar positions. Positions that typically have multiple employees performing similar functions that are often dominated by employees of a certain sex typically include police officers, firefighters, utility operators, laborers/equipment operators, refuse collection workers, collections clerks, data entry clerks, and administrative assistants. Other positions such as custodians, dispatchers, and accountants may also be dominated by employees of a certain sex in some cities. In addition to the administrative costs of evaluating and potentially reclassifying positions, litigation costs could also impact city budgets as a result of this bill's passage."

* Kentucky League of Cities (KLC) took data from a wage and salary survey conducted for the 2014 fiscal year and identified the positions currently paying below projected minimum wage. KLC states that the analysis assumed that no positions will be changed (added or removed) after the minimum wage legislation takes effect. KLC adjusted the data to reflect under-reporting of positions. KLC stated its research assumed the sample of 65 percent of all member cities represented 65 percent of all cities with at least one hourly employee.

**The Current Population Survey (CPS), is sponsored jointly by the U.S. Census Bureau and the U.S. Bureau of Labor Statistics (BLS), and is the primary source of labor force statistics for the population of the United States. The CPS is the source of numerous high-profile economic statistics, including the national unemployment rate, and provides data on a wide range of issues relating to employment and earnings. The CPS is based on "self-report data." Hourly-paid local government employees making less than $10.10 per hour were identified in the data. The $10.10 per hour was then differenced from the observation's recorded wage and then multiplied by the average hours worked to arrive at the yearly estimate. An attempt was made to eliminate local government positions not typically used in Local Government Mandate analysis; an example would be those working for special taxing districts or local public school teachers.

Data Source(s): Kentucky Association of Counties, Kentucky League of Cities, LRC Staff

Preparer: John V. Ryan **Reviewer:** MCY **Date:** 1/20/15