

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.

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, as follows.

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, as follows:

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 noted that data from the Kentucky League of Cities’ (KLC) *2014 Wage & Salary Survey* were used to estimate the potential cost to local governments of raising the minimum wage. KLC surveyed all its member cities, receiving responses from 241 (66 percent) of them. According to KLC, cities in Kentucky employed more than 20,000 people at the time the wage and salary survey was conducted.

For the purposes of this analysis, it was assumed that wages would increase from \$7.25 to \$10.10 per hour over a 3-year period with each increase being \$0.95. After weighting the estimates to reflect the incomplete coverage of the survey, the LRC staff economist estimated that cities in Kentucky would see approximately \$60,000 in increased wage costs in the first year, \$310,000 in the second year, and \$790,000 in

the third year. These estimates do not include seasonal employees. Data are insufficient to include costs that may be borne by counties should the minimum wage increase.

As for the revenue side, KLC stated that some cities would experience a significant positive net impact if SB 33 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.

* 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 League of Cities, Kentucky Association of Counties, LRC Staff

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