

**Local Government Mandate Statement
Kentucky Legislative Research Commission
2021 Regular Session**

Part I: Measure Information

Bill Request #: 498

Bill #: SB 41

Document ID #: 1229v

Bill Subject/Title: AN ACT relating to wages.

Sponsor: Senator Reginald Thomas

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

Office(s) Impacted: All local government offices with employees making minimum wage.

Requirement: Mandatory Optional

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

**Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local
Government**

SB 41, Section 1 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 (currently \$95,000)**, 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. By doing this, more employees would be exempt from the requirement to pay the statutory minimum wage.

SB 41, Section 2, amends KRS 337.275 to raise the minimum hourly wage requirement from the current \$7.25 to not less than:

\$ 9.25 an hour on July 1, 2021;
\$10.60 an hour on July 1, 2022;
\$12.00 an hour on July 1, 2023;
\$13.30 an hour on July 1, 2024;

\$14.10 an hour on July 1, 2025; and
\$15.00 an hour on July 1, 2026.

SB 41 also raises the state minimum wage for tipped employees who regularly receives \$30 per month in tips to not less than:

\$2.13 per hour on the effective date of the Act;
\$3.25 per hour on July 1, 2022;
\$4.15 per hour on July 1, 2023;
\$5.00 per hour on July 1, 2024;
\$6.10 per hour on July 1, 2025; and
\$7.25 per hour on July 1, 2026.

SB 41 provides that the minimum wage as provided by KRS 337.275 shall never be less than the federal hourly wage rate.

SB 41 also includes anti-preemption language permitting local governments to establish minimum wage ordinances in excess of the state minimum wage.

The fiscal impact of SB 41 on local government is expected to be minimal to significant. From a cost perspective, all cities and counties will be impacted due to the increases in wages for city and county employees. However, the cost will be offset by an increase in payroll taxes on private sector employees. 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).

Kentucky League of Cities provided the following yearly increase in payroll expenditures for city governments based on 2% annual wage growth for each yearly minimum wage increase as outlined in the proposal (using FY 2020 reported wages for nonelected city employees):

Fiscal Year	Minimum Wage	Est. Yearly Increase in City Payroll
2022	\$8.20	\$41,000
2023	\$9.15	\$128,000
2024	\$10.10	\$350,000
2025	\$11.00	\$666,000
2026	\$12.05	\$1,445,000
2027	\$13.10	\$2,602,000
2028	\$13.95	\$3,885,000
2029	\$15.00	\$6,309,000

Total cost: \$15,426,000

Please note that the above estimates are increases for each year. For instance, FY 2022 is just the amount to get those below \$8.20/hour up to the new minimum. In FY 2023, the increase takes those getting paid \$8.20/hour and less than \$9.15 in FY 2022 and adjusting them to \$9.15. The cumulative amount of the additional cost per year would be \$15.4 million.

The revenues that cities collect through a payroll tax would likely more than offset increased city costs; however, not all cities have a payroll tax, thus the smaller communities may see expenditures increase without an associated increase in tax revenues. This data does not always include city-affiliated utilities or other public entities. The above estimates also assume no adding or subtracting employees and 2% raises each year. They do not include any employer contributions to the County Employees Retirement System (but they do include Social Security and Medicare contributions).

Secondary effects of an increase in minimum wage might also include:

- Positive effect on employee morale as a result of the “pay raises”. This might lead to an increase in productivity and a decrease in turnover.
- 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.

Part III: Differences to Local Government Mandate Statement from Prior Versions

Part II pertains to the bill as introduced.

Data Source(s): LRC Staff; Kentucky League of Cities

Preparer: Wendell F. Butler **Reviewer:** KHC **Date:** 1/7/21