

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 79

PRINTER NO. 1389

AMOUNT

See Fiscal Impact

FUND

General Fund

DATE INTRODUCED

January 23, 2019

PRIME SPONSOR

Senator Tartaglione

DESCRIPTION

Senate Bill 79 amends the Minimum Wage Act of 1968 to provide for an increase to the minimum wage and to make changes to the exemptions to the minimum wage and overtime provisions.

This bill will increase the minimum wage as follows:

Date	Pay per Hour
July 1, 2020	\$8.00
January 1, 2021	\$8.50
July 1, 2021	\$9.00
January 1, 2022	\$9.50

The legislation also provides for expanded exemptions of certain positions from overtime rules to take effect on or after January 1, 2022, or one year after phase in.

Senate Bill 79 also prohibits employers from deducting credit card fees from any gratuity added and requires the entire gratuity amount to be paid to the employee no later than the next payday following the credit card payment.

FISCAL IMPACT:

Senate Bill 79 will have no administrative cost to the Commonwealth's General Fund budget. Executive Order 2016-02 amended by Governor Wolf in June of 2018, provided for a minimum wage of \$12.00 an hour immediately, for all employees of the Commonwealth under the Governor's jurisdiction and any employees who perform services for the Commonwealth.

The Department of Human Services does not believe there will be any additional costs due to this legislation. The Department of Labor and Industry's Occupational Wages May 2018 Report finds that average wages for care workers in the state are above the increases provided in this bill. Medicaid programs may realize future savings if the increases result in adults moving off of Medicaid and children transitioning from Medicaid to the Children's Health Insurance Program (CHIP).

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FISCAL NOTE

The Independent Fiscal Office analyzed the impact on General Fund revenues of increasing the minimum wage in its March 22, 2019 report entitled *FY 2019-20 Executive Budget: Analysis of Revenue Proposals*. Unlike the phased-in minimum wage increase contained in Senate Bill 79, the IFO's report considered a one-time increase to the minimum wage at a different amount than what is contained in the legislation. Therefore, the fiscal impact cited in the IFO's report does not directly correlate with the projected fiscal impact resulting from Senate Bill 79, but it does provide general guidance regarding the expected effect on revenues.

The IFO's analysis assumed that income gains to low-wage workers would come from the following sources:

- 5 percent from higher prices paid by tourists or out-of-state consumers;
- 10 percent from higher worker productivity and reduced turnover;
- 10 percent from lower profits of pass-through entities;
- 10 percent from lower profits of C corporations; and
- 65 percent from higher prices paid by Pennsylvania consumers.

As the IFO's report indicates, the first and second sources of income gains noted in the above bullets represent pure revenue gains and are not offset by less spending or lower incomes elsewhere in the economy. The third and fourth sources of income gains listed above do require offsets because such income would have flowed to other residents or businesses instead. Finally, the spending shift from higher prices shown in the last bullet would have been spent on other goods and services throughout the state economy, much of which would have translated into taxable income.

The IFO's analysis concluded that the net effect from the shift in spending patterns and income distribution would yield higher personal income tax (PIT) revenues. A higher minimum wage would also have other General Fund revenue effects, including the following:

- Higher incomes for low-income filers would reduce claims for PIT tax forgiveness (positive effect on General Fund revenues);
- Increased federal employer payroll taxes on higher wages would reduce taxable business profits (negative effect);
- Overall spending and economic output would increase because low-wage workers have a higher marginal propensity to consume (positive effect); and
- A general cutback due to a potential shift to underground economic activity (negative but not quantifiable).

Overall, the Independent Fiscal Office found that General Fund revenues would increase but in an amount of just over one-tenth of one percent of annual General Fund revenue collections. Furthermore, the revenue impact resulting from economic multiplier effects would not materialize in the first year following enactment. As a result, Senate Bill 79 is projected to have a positive effect on the Commonwealth's General Fund revenues in an amount plus or minus one-tenth of one percent of annual revenues.