

MINIMUM WAGE AMENDMENTS

Phone: (517) 373-8080
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Senate Bill 1171 (S-2) as passed by the Senate
Sponsor: Sen. Dave Hildenbrand
House Committee: Michigan Competitiveness
Senate Committee: Government Operations
Complete to 12-3-18

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

Senate Bill 1171 would amend the Improved Workforce Opportunity Wage Act to revise both the general minimum hourly wage and the minimum hourly wage for employees who receive tips in their jobs.

The Improved Workforce Opportunity Wage Act was proposed by initiative petition filed by the ballot question committee Michigan One Fair Wage and certified by the Michigan Board of Canvassers on August 24, 2018. On September 5, the initiative petition was approved by the House of Representatives and the Senate, becoming Public Act 337 of 2018.¹ The Act will take effect on the ninety-first day after the legislature's final adjournment in December (i.e., in late March of 2019).

The Improved Workforce Opportunity Wage Act largely replicated—with changes—the Workforce Opportunity Wage Act, Public Act 138 of 2014, replacing and superseding that earlier minimum wage law without repealing it outright. The most notable differences between the two acts include provisions in the Improved Workforce Opportunity Wage Act that will increase Michigan's minimum hourly wage from the current \$9.25 an hour to \$12 an hour by January 1, 2022, and provisions that will increase the percentage of that minimum wage that must be paid to a tipped employee from the current 38% to 100% by January 1, 2024.

Senate Bill 1171 would revise increases for both of these wages as described below.

Minimum Hourly Wage Rate

Under the Improved Workforce Opportunity Wage Act, the current general minimum wage of \$9.25 an hour will increase according to the following schedule:

Beginning January 1, 2019:	\$ 10.00
Beginning January 1, 2020:	\$ 10.65
Beginning January 1, 2021:	\$ 11.35
Beginning January 1, 2022:	\$ 12.00

Beginning January 1, 2023, and on January 1 of each following year, the wage will be adjusted by the rate of inflation, as calculated the previous October, based on the increase, if any, in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the previous 12 months, as published by the Bureau of Labor Statistics. There

¹ See <http://legislature.mi.gov/documents/2017-2018/initiative/pdf/MinimumWageInitiativeAnalysis.pdf>

is no cap on the size of an increase. However, no such increase can take effect if Michigan’s unemployment rate for the year preceding the increase was 8.5% or higher.

Under Senate Bill 1171, the current general minimum wage of \$9.25 an hour would increase to \$9.48 beginning January 1, 2019, and then increase by 23 cents every following January 1 until it equaled \$12.00. (It could not equal \$12.00 sooner than January 1, 2030.) There would be no further increases after the wage reached \$12.00. The bill would also eliminate the inflation-adjustment provisions of the Act. It would provide that no regularly scheduled increase could take effect if Michigan’s unemployment rate were 8.5% or higher for the year preceding the increase.

The table below compares the general minimum wage under the Improved Workforce Opportunity Wage Act with that wage under Senate Bill 1171. (Note that the minimum wage under the Act will include adjustments for inflation beginning in 2023.)

Calendar Year	Minimum Wage under the Act	Minimum Wage under SB 1171
2018	\$9.25	\$9.25
2019	\$10.00	\$9.48
2020	\$10.65	\$9.71
2021	\$11.35	\$9.94
2022	\$12.00	\$10.17
2023	\$12.25*	\$10.40
2024	\$12.51*	\$10.63
2025	\$12.76*	\$10.86
2026	\$13.02*	\$11.09
2027	\$13.29*	\$11.32
2028	\$13.57*	\$11.55
2029	\$13.86*	\$11.78
2030	\$14.16*	\$12.00

* Estimates based on inflation projections.

Minimum Wage for Tipped Employees

Employees who receive tips in the course of their employment now have a minimum hourly wage that is 38% of the general minimum wage. (This currently equates to \$3.52 an hour.) If the sum of that wage and the tips received does not at least equal the general minimum wage, the employer must make up the shortfall.

Under the Improved Workforce Opportunity Wage Act, the percentage of the general minimum wage that a tipped employee must be paid will increase as follows:

Beginning January 1, 2019: 48%
 Beginning January 1, 2020: 60%
 Beginning January 1, 2021: 70%
 Beginning January 1, 2022: 80%
 Beginning January 1, 2023: 90%
 Beginning January 1, 2024: 100%

That is, by 2024 there will be no difference between a tipped employee minimum wage and the general minimum wage.

Senate Bill 1171 would eliminate the provisions that make the tipped employee minimum wage a percentage of the general minimum wage. Instead, the wage would be specifically set at \$3.52 beginning the effective date of the bill. The wage would increase to \$3.56 beginning January 1, 2019, and would be increased by 4 cents every following January 1 until it equaled \$4.00 beginning January 1, 2030. There would be no further increases after it reached \$4.00.

The table below compares the tipped employee minimum wage under the Improved Workforce Opportunity Wage Act with that wage under Senate Bill 1171. (Note that, beginning in 2023, the general minimum wage under the Act will include adjustments for inflation; under the Act, it is the basis for the tipped employee wage.)

Calendar Year	Tipped Minimum Wage under the Act	Tipped Minimum Wage under SB 1171
2018	\$3.52	\$3.52
2019	\$4.80	\$3.56
2020	\$6.39	\$3.60
2021	\$7.95	\$3.64
2022	\$9.60	\$3.68
2023	\$11.03*	\$3.72
2024	\$12.51*	\$3.76
2025	\$12.76*	\$3.80
2026	\$13.02*	\$3.84
2027	\$13.29*	\$3.88
2028	\$13.57*	\$3.92
2029	\$13.86*	\$3.96
2030	\$14.16*	\$4.00

* Estimates based on inflation projections.

The bill would also eliminate other provisions of the Improved Workforce Opportunity Wage Act pertaining to tipped employees that do the following:

- Provide that tips are the property of the employee who receives them, except under a voluntary tip-sharing agreement where tips are shared with other nonmanagerial employees in the chain of service.
- Provide that tips and service charges paid to an employee are in addition to, and may not count toward, the wages due to the employee.
- Require employers to provide employees and consumers with written notice of their plan to distribute service charges.
- Require employers to keep records showing compliance with the law governing tipped employee pay for at least three years after the date of an employee's last pay period.
- Provide that the minimum wage for tipped employees applies only if the employee is informed by the employer of the relevant provisions of the Act in writing, at or before the time of hire, and gives his or her written consent. [The bill would not remove the entire provision, but only the underlined requirements.]

Other Changes

The bill would add a provision regarding junior ice hockey players that was added to the Workforce Opportunity Wage Act in December of 2017 but was not included in the Improved Workforce Opportunity Wage Act.² The bill would also make several technical or editorial amendments for clarity or consistency.

MCL 408.933 et al.

FISCAL IMPACT:

State and Local Costs and Revenues

Although the potential impact of changes in the minimum wage on state and local tax revenues cannot be determined, it is likely to be small relative to total collections given the modest size of the cohort that would see the most significant impacts from an increase in the minimum wage. From a state and local government perspective, only a small portion of government employment is typically composed of minimum wage workers. Therefore, any changes in government labor costs due to an increasing minimum wage would likely be insignificant relative to overall expenditures.

State Medicaid Costs – Home Help and Health Care Workers

Reducing the annual rate of growth in the state's minimum wage under the Improved Workforce Opportunity Wage Act would reduce state Medicaid costs for adult home help workers and direct behavioral health care workers, as these workers are paid at or near the state's minimum wage.

Reducing the annual rate of growth in the state's minimum wage under the Improved Workforce Opportunity Wage Act would reduce state Medicaid costs, beginning at \$3.8

² <http://www.legislature.mi.gov/documents/2017-2018/billanalysis/House/pdf/2017-HLA-0483-B03AE529.pdf>

million Gross (\$1.3 million GF/GP) during FY 2018-19, and the reduction would grow annually as the state's minimum wage rate of growth is reduced. In FY 2021-22, reducing the state minimum wage from \$12.00 to \$10.17 would reduce state Medicaid costs by \$89.1 million Gross (\$31.6 million GF/GP). The federal funds that would reduce are Medicaid matching funds; the current federal medical assistance percentage (FMAP) match rate is 64.45%.

It should be noted that the FY 2018-19 Department of Health and Human Services (DHHS) budget would not have to be revised, since the Medicaid costs from the passage of the Improved Workforce Opportunity Wage Act have not been incorporated into the FY 2018-19 DHHS budget.

State Medicaid and Cash Assistance Caseloads

Reducing the annual rate of growth in the state's minimum wage under the Improved Workforce Opportunity Wage Act would increase public assistance caseloads and expenditures, as an individual's earned income directly affects an individual's eligibility and the cash assistance benefit amount.

Reduced wages would increase eligible Medicaid recipients by less than 1%, thus increasing Medicaid program costs by \$14.0 million Gross (\$2.7 million GF/GP) during FY 2018-19, and the increase would grow annually as the state's minimum wage rate of growth is reduced. In FY 2021-22, reducing the state minimum wage from \$12.00 to \$10.17 would increase Medicaid program costs by \$43.0 million Gross (\$9.0 million GF/GP). The federal funds that would be reduced are Medicaid matching funds; the current FMAP match rate is 64.45% for traditional Medicaid and 93.25% for Healthy Michigan Plan.

Reduced wages would increase Family Independence Program (FIP) costs by approximately \$1.0 million GF/GP during FY 2018-19, and the increase would grow annually as the state minimum wage rate of growth is reduced. In FY 2021-22, reducing the state minimum wage from \$12.00 to \$10.17 would increase FIP costs by approximately \$5.0 million GF/GP.

It should be noted that the FY 2018-19 DHHS budget would not have to be revised, since the caseload reductions from the passage of the Improved Workforce Opportunity Wage Act have not been incorporated into the FY 2018-19 DHHS budget.

Legislative Analyst: Rick Yuille
Fiscal Analysts: Jim Stansell
Kevin Koorstra
Kent Dell

■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.