



Senate Fiscal Agency
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BILL ANALYSIS



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Senate Bill 1171 (Substitute S-2 as reported)

Sponsor: Senator Dave Hildenbrand

Committee: Government Operations

CONTENT

The bill would amend the Improved Workforce Opportunity Wage Act to do the following:

- Eliminate a provision that increases the standard minimum wage each year from \$10, beginning on January 1, 2019, to \$12, beginning on January 1, 2022.
- Increase the standard minimum hourly wage from \$9.25 to \$9.48, beginning January 1, 2019, and, beginning January 1, 2020, by \$0.23 each year until it equaled \$12.
- Eliminate a provision requiring the State Treasurer to calculate an adjusted minimum wage rate based on the rate of inflation.
- Specify that an annual increase in the minimum wage that did not take effect because the State's unemployment rate was 8.5% or higher for the preceding year would take effect on the first January 1 for which the State's unemployment rate was less than 8.4% for the immediately preceding year.
- Eliminate a provision that increases the minimum hourly wage of a tipped employee from 38% to 48%, beginning in January 1, 2019, and annually thereafter until it equals 100% of the standard minimum wage, beginning on January 1, 2024.
- Adjust the minimum hourly wage for tipped employees each from 38% of the current standard minimum wage (\$3.52), beginning on the bill's effective date, to \$4, beginning on the January 1, 2030.
- Eliminate a provision that requires gratuities to remain the property of the employee who receives them, except under a voluntary tip sharing agreement, and that gratuities and service charges are in addition to, and may not be counted against, wages due to an employee.

The bill also specifies that the Act would not apply to an individual who was 16, but less than 21, years of age in his or her capacity as a junior ice hockey player for a junior ice hockey team. (Public Act 243 of 2017 amended the Workforce Opportunity Wage Act to include this language. The Improved Workforce Opportunity Wage Act, which supersedes the Workforce Opportunity Wage Act effective 91 days after the 2018 Regular Session adjourns sine die, omitted this language.)

MCL 408.933 et al.

Legislative Analyst: Jeff Mann

FISCAL IMPACT**Department of Licensing and Regulatory Affairs**

The Department of Licensing and Regulatory Affairs would experience a minor negative fiscal impact primarily due to communications-related expenses, including the publication of required notices and materials. The Department expects that additional staff time could be required depending upon the number of inquiries received regarding the policy change, possibly resulting in the addition of one FTE.

State & Local Revenue

Analyses of minimum wage increases and tax revenue effects in Pennsylvania suggest that the bill potentially would result in a minor increase in State and local income tax revenue as well as sales tax revenue because of increased incomes. A change in business practices, such as decreased hiring for minimum wage positions, would offset a portion of this increase, but the State and income tax-collecting local governments likely would experience a minor net increase in tax revenue.

Fiscal Impact on the Department of Health and Human Services (DHHS)

An increase in the length of the phase-in of a minimum wage increase would have a direct impact on wages paid directly and indirectly by the DHHS to Adult Home Help (AHH) and behavioral health direct care workers. The AHH workers are reimbursed directly by the State through Medicaid payments. The behavioral health direct care workers are reimbursed by the Prepaid Inpatient Health Plans (PIHPs). Boilerplate language directs that any wage increases be a part of the actuarial soundness rate-setting process for PIHPs, so a lengthening of minimum wage increases will reduce PHIP costs of relative to the initiated law wage increases for direct care workers.

The language in the bill concerning gratuities would have no fiscal impact on the wages paid directly or indirectly by the DHHS to Adult Home Help (AHH) and behavioral health workers. The proposed language in the bill would make changes in regard to gratuities and employer payment of any shortfall between the minimum hourly wage and gratuities. At this time, there are no known employees who receive gratuities from direct or indirect DHHS wage payments, so there would be no fiscal impact on the State.

There could be a more general secondary effect if the changes under the bill resulted in an effective minimum wage decrease relative to the initiated law that will take effect on the 91st day after the Legislature adjourns sine die. Any change in the minimum wage could have an implication on income qualifications for cash assistance. The Family Independence Program (FIP) has an income disregard, so if there were changes in the calculation of the minimum hourly wage with gratuities, or the length of time between minimum wage increases were lengthened, and those changes resulted in a recipient's income decreasing, the FIP payment could increase, leading to a possible increase in FIP costs relative to the increases scheduled under the initiated law.

Adult Home Help

The vast majority of AHH workers earn the minimum wage. Under the bill, the minimum wage would be increased by \$0.23 each January 1, until the minimum wage reached \$12.00. This would lead to increased wages for Adult Home Help workers, who are paid by the State's Medicaid program. The fiscal impact would be based on a blended wage increase as the fiscal year started each October 1. For instance, the minimum wage would be \$9.48 per hour during calendar year 2019 and \$9.71 per hour in calendar year 2020, compared to the current \$9.25 per hour. During fiscal year (FY) 2019-20, the cost would be based on a wage increase of \$0.23 per hour (\$9.48 per hour less the current \$9.25 per hour) from October 1, 2019, to December 31, 2019, and a wage increase of \$0.46 per hour (\$9.71 per hour less the current \$9.25 per hour) from January 1, 2020, to September 30, 2020. As the initiated law would have fully increased the minimum wage to \$12.00 on January 1, 2023, the comparison of the fiscal impact must match the time period of phase-in. Under current law the total cost of the increase to FY 2029-30 is estimated to be \$849.4 million Gross and \$296.4 million General Fund/General Purpose (GF/GP). Under the bill, the total cost would be \$517.5 million Gross and \$180.6 GF/GP, leading to a savings of \$331.9 million Gross and \$115.8 million GF/GP.

AHH Savings Relative to Cost Estimate of Minimum Wage Initiated Law (in millions)		
	Gross	GF/GP
FY 2018-19	(\$11.7)	(\$4.0)
FY 2019-20	(25.0)	(8.8)
FY 2020-21	(38.8)	(13.6)
FY 2021-22	(51.7)	(18.1)
FY 2022-23	(49.7)	(17.4)
FY 2023-24	(42.8)	(15.0)
FY 2024-25	(35.9)	(12.5)
FY 2025-26	(29.0)	(10.1)
FY 2026-27	(22.1)	(7.7)
FY 2027-28	(15.2)	(5.3)
FY 2028-29	(8.3)	(2.9)
FY 2029-30	(1.4)	(0.5)

Behavioral Health Direct Care Workers

Although behavioral health direct care workers are not employed directly by the DHHS, boilerplate language in the DHHS budget requires any wage increases resulting from State or Federal laws affecting direct care workers to be included as a variable in the calculation of the actuarially sound rates paid to the Prepaid Inpatient Health Plans. Therefore, the minimum wage increase could result in a larger increase in the actuarially sound rates than would have occurred without the increase in the minimum wage. As a result of Public Act 107 of 2017, all direct care workers received a \$0.50 per hour wage increase, bringing the current wage floor for direct care workers to \$9.75 per hour compared to the State minimum wage of \$9.25 per hour. The majority of direct care workers earn somewhere between the current wage floor of \$9.75 per hour, and the January 1, 2030, wage floor of \$12.00 per hour. Under current law, the total cost of the increase to FY 2029-30 is estimated to be \$1.0B Gross and \$357.6 million GF/GP. Under the bill, the total cost would be \$366.4 million Gross and \$129.8 GF/GP, leading to a savings of \$638.7 million Gross and \$227.8 million GF/GP.

Direct Care Worker Savings Relative to Cost Estimate of Minimum Wage Initiated Law (in millions)		
	Gross	GF/GP
FY 2018-19	(\$3.0)	(\$1.1)
FY 2019-20	(11.8)	(4.2)
FY 2020-21	(38.5)	(13.7)
FY 2021-22	(86.9)	(31.0)
FY 2022-23	(97.6)	(34.8)
FY 2023-24	(93.9)	(33.5)
FY 2024-25	(87.7)	(31.3)
FY 2025-26	(77.1)	(27.5)
FY 2026-27	(63.1)	(22.5)
FY 2027-28	(47.2)	(16.8)
FY 2028-29	(26.6)	(9.5)
FY 2029-30	(5.3)	(1.9)

Date Completed: 12-3-18

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.