

April 1, 2015

The Honorable Mark Hutton, Chairperson
House Committee on Commerce, Labor and Economic Development
Statehouse, Room 521-E
Topeka, Kansas 66612

Dear Representative Hutton:

SUBJECT: Fiscal Note for HB 2316 by Representative Frownfelter, et al.

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2316 is respectfully submitted to your committee.

Under current law, the Kansas minimum wage is \$7.25 per hour and the minimum wage for employees that receive tips and gratuities is \$2.13 per hour. HB 2316 would raise the minimum wage to \$8.06 per hour beginning on January 1, 2016, \$8.87 per hour beginning on January 1, 2017, \$9.68 per hour beginning on January 1, 2018, \$10.50 per hour beginning on January 1, 2019, and \$11.32 per hour beginning on January 1, 2020. The bill would increase the minimum wage for employees that receive tips and gratuities to \$2.36 per hour on January 1, 2016, \$2.60 per hour on January 1, 2017, \$2.84 per hour on January 1, 2018, \$3.08 per hour on January 1, 2019, and \$3.32 per hour on January 1, 2020. The bill would allow the minimum wage rates to be adjusted on an annual basis beginning on July 1, 2021, if the current minimum wage rate is less than 200.0 percent of the federal poverty guidelines published by the federal Department of Health and Human Service. The Secretary of the Department of Labor would be required to publish the new minimum wage rates on the Department's website and the *Kansas Register*.

The Department of Revenue estimates that HB 2316 would increase State General Fund revenues by \$540,000 in FY 2016. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

| Receipt Description | Consensus Revenue Estimates (Nov.10, 2014) | Change in Revenue FY 2016 | Proposed Adjusted CRE FY 2016 |
|---------------------|--|---------------------------------|-------------------------------------|
| Motor Carrier | \$ 12,000 | \$ -- | \$ 12,000 |

| | | | |
|------------------------|----------------|-----------|----------------|
| Income Taxes: | | | |
| Individual | 2,300,000 | 540 | 2,300,540 |
| Corporate | 470,000 | -- | 470,000 |
| Financial Institutions | 39,000 | -- | 39,000 |
| Excise Taxes: | | | |
| Retail Sales | 2,270,000 | -- | 2,270,000 |
| Compensating Use | 380,000 | -- | 380,000 |
| Cigarette | 88,000 | -- | 88,000 |
| Severance | 115,900 | -- | 115,900 |
| All Other Excise Taxes | 114,100 | -- | 114,100 |
| Other Taxes | <u>181,600</u> | <u>--</u> | <u>181,600</u> |
| Total Taxes | \$5,970,600 | \$ 540 | \$5,971,140 |
| Other Revenues: | | | |
| Interest | \$ 8,000 | \$ -- | \$ 8,000 |
| Transfers | (222,500) | -- | (222,500) |
| Agency Earnings | <u>55,300</u> | <u>--</u> | <u>55,300</u> |
| Total Other Revenues | (\$ 159,200) | \$ -- | (\$ 159,200) |
| Total Receipts | \$5,811,400 | \$ 540 | \$5,811,940 |

The fiscal effect to state revenues during subsequent years would be as follows:

| | | | |
|--------------------|----------------|----------------|----------------|
| | <u>FY 2017</u> | <u>FY 2018</u> | <u>FY 2019</u> |
| State General Fund | \$1,840,000 | \$2,470,000 | \$3,760,000 |

To formulate these estimates, the Department of Revenue examined 2012 salary and wage information from the Federal Bureau of Labor Statistics. The data indicates that approximately 29,000 employees are paid \$7.25 per hour which is the current state and federal minimum wage and 15,000 employees are paid \$2.13 per hour which is the current state and federal minimum wage for employees that receive tips and gratuities. Increasing the state minimum wage to \$8.06 per hour, increasing the minimum wage for employees that receive tips and gratuities to \$2.36, and assuming an average state income tax rate of 2.4 percent, the bill would increase individual income tax receipts by approximately \$1.3 million in tax year 2016. Because the tax year and fiscal year do not cover the same months, the bill is estimated to increase individual income tax receipts by \$540,000 in FY 2016 and \$1,840,000 in FY 2017. The additional income tax liability also has the potential to reduce the refundable portion of the Earned Income Tax Credit (EITC). Currently, the refundable portion of the EITC equals approximately \$65.0 million. The bill would have no fiscal effect on the operations of the Department of Revenue.

The Department of Labor indicates the bill has the potential to increase costs for unemployment insurance benefits paid out from the Employment Security Trust Fund; however, the Department is unable to estimate the amount of additional costs. The bill requires the Secretary of Labor to publish the new minimum wage rates on the Department's website and the

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Kansas Register. The Department estimates the costs to publish the new minimum wage rates would be negligible and could be absorbed with existing resources.

The bill has the potential to increase costs to state agencies and private employers that currently hire workers at wage rates below the new state minimum wages proposed in the bill. For example, the Department of Administration indicates that they have 92 employees that make at least \$7.25 per hour and below the first minimum wage increase of \$8.06 that would go into effect on January 1, 2016. The Department of Administration estimates the first minimum wage increase would cost \$45,950 that would cover the last half of FY 2016. The Department of Administration indicates that costs would increase in future fiscal years, as more employees would be covered by new minimum wage increases that would go into effect. Any fiscal effect associated with HB 2316 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Jack Smith, KDOR
Colleen Becker, DofA
Dawn Palmberg, Labor