

MISSOURI STATE AUDITOR'S OFFICE
FISCAL NOTE (06-16)

Subject

Initiative petition from James Kottmeyer regarding a proposed statutory amendment to Chapter 290 of the Revised Missouri Statutes concerning minimum wage, version 5. (Received February 21, 2006)

Date

March 7, 2006

Description

This initiative petition would amend Chapter 290 of the Revised Statutes of Missouri. Effective January 1, 2007, the petition would require employers to pay wages at the rate of \$6.50 per hour, or wages at the same rate or rates set under the provisions of federal law as the prevailing federal minimum wage applicable to those covered jobs in interstate commerce, whichever rate per hour is higher.

The minimum wage would increase or decrease on January 1, 2008, and on January 1 of successive years, by the increase or decrease in the cost of living. On September 30, 2007, and on each September 30 of each successive year, the director shall measure the increase or decrease in the cost of living by the percentage increase or decrease as of the preceding July over the level as of July of the immediately preceding year of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) or successor index as published by the U. S. Department of Labor or its successor agency, with the amount of the minimum wage increase or decrease rounded to the nearest five cents.

Section 290.505.1 currently requires employers to compensate their employees for a workweek longer than forty hours at a rate of one and one-half the regular rate. The workweek is fifty-two hours per week for employees of an amusement or recreation business. The petition would exclude employees that are exempt from federal minimum wage or overtime requirements from obtaining overtime compensation.

Section 290.507 currently exempts farmers from any minimum wage or overtime requirements. The petition would amend the section to exempt only small farmers from the minimum wage and overtime requirements.

Section 290.517 currently states learners and apprentices shall be paid the same rate or rates set under the provisions of the federal law as the prevailing federal subminimum wage applicable to new workers. The petition would amend the section to pay apprentices and learners not less than 90 cents less than the minimum wage established by sections 290.500 to 290.530, RSMo.

The amendment is to be voted on in November, 2006. The effective date of the amendment will be January 1, 2007.

Public comments and other input

The State Auditor's Office received input from the Attorney General's Office, the Office of Administration, the Department of Agriculture, the Department of Economic Development, the Department of Elementary and Secondary Education, and the Department of Labor and Industrial Relations.

Assumptions

Officials from the Attorney General's office indicated the implementation of the changes would not create a fiscal impact for the office.

Officials from the Office of Administration – Division of Budget and Planning (BAP) indicated this act would place a proposal on the November 2006 ballot to increase the minimum wage required to be paid to specified hourly employees in Missouri. BAP has identified several economic consequences of this proposal which may lead to a direct or indirect fiscal impact on state and local government, including but not limited to the following:

- A. An increase in wages for certain hourly employees, which leads to a direct increase in taxable income.
- B. A potential increase in consumer spending based on increased income, which leads to an indirect increase in taxable sales.
- C. The potential for lower employment, especially at certain firms dependent on low-wage labor.
- D. The potential for decreased business investment by certain firms dependent on low-wage labor.
- E. The potential for inflation, as firms pass on increased labor costs to consumers.
- F. The potential for increased costs for the state, to the extent that the state compensates employees below the proposed levels.

Further, there are current provisions in federal and state statutes that permit employers to pay less than the federal minimum in certain situations. Modifications of these provisions are included in this proposal. However, BAP does not have the requisite data to accurately estimate the current earnings of these employees nor what their earnings may be should any of these proposals be adopted.

According to the report “Characteristics of Minimum Wage Workers: 2004” as published by the United States Bureau of Labor Statistics, April 2005, Table 3, there were 42,000 workers (or roughly 2% of the state’s workforce) employed in Missouri at hourly rates equal to or less than the federal minimum of \$5.15 per hour. For this analysis, BAP

assumes that these workers are earning the current federal minimum, and their wage rates will be increased to the levels proposed.

According to Table 9 of that same report, the average work week for workers earning the federal minimum is an estimated 29 hours. At \$6.50 per hour, the total income gain across the state would be \$85,503,600 in fiscal year 2008.

According to Table 7 of that same report, over 50% of workers in this category are under age 25. BAP assumes that the vast majority of these workers can be claimed as dependents, and that this income is fully taxable at the full 6% rate in statute. For the remaining 50% of these workers who are independent adults, BAP assumes little or none of this income is taxable after standard and other deductions at the state and federal levels are applied. BAP assumes, therefore, that half of the marginal income gain will be taxed at 6%. Based on these assumptions, BAP estimates the total income tax gain to be \$2,565,108 in fiscal year 2008.

Data from the US BLS Consumer Expenditures Survey 2004 suggests that consumers in these income categories spend an estimated 25% of their income on items taxable in Missouri. BAP estimates \$21,375,900 in new spending, and \$903,132 in sales tax increases in fiscal year 2008.

Finally, officials from the Office of Administration, Division of Personnel, estimate increased personal service expenditures of \$70,779 to ensure all state employees are paid at the proposed rate in fiscal year 2008.

Therefore, BAP estimates the fiscal impact of this proposal to be \$3,397,461 in the first full year of implementation. BAP recognizes that, if approved, this proposal goes into effect January 1, 2007. This could translate into some fiscal gains in the second half of FY 2007, depending on the withholding schedules and spending patterns of the employees impacted by this proposal.

The proposed minimum wage is increased each year by a specified inflation index and rounded to the nearest nickel. BAP assumes the inflation rate to be 3% each year. The minimum wage rates would thus be \$6.50, \$6.70, and \$6.90, respectively, for the first three years of the proposal.

Officials from the Department of Agriculture estimate the initiative petition will cost their agency \$50,020 the first year after passage by requiring a minimum wage of \$6.50 per hour to be paid at the Missouri State Fair. Continued unknown cost to the Missouri State Fair as statute change would require cost of living increases/decreases to be added or subtracted to \$6.50 each year beginning in 2008.

Additional FY2008 cost for Missouri State Fair Fund was calculated using actual 2005 fair costs. Since the vote of the people in November 2006 will determine whether or not the initiative passes, no fiscal impact was determined for FY2007. FY2009 fiscal impact could not be determined due to not knowing cost of living percentage as determined by

the Consumer Price Index for Urban Wage Earners and Clerical Workers or successor index as published by the U.S. Dept. of Labor.

Officials from the Department of Economic Development indicated the initiative petition would have no fiscal impact on their office.

Officials from the Department of Elementary and Secondary Education indicated the initiative petition would have no fiscal impact on their office.

According to officials from the Department of Labor and Industrial Relations, this legislation would increase the workload performed by the Department's Division of Labor Standards because of the added language stating the director shall investigate and attempt equitably to adjust controversies between employers and employees as to alleged wage claims. The Department estimates two additional employees will be needed to assist with documenting information given and answering phone calls from constituents. The Department also estimates an increase in the amount of travel required, which is a direct cost from General Revenue monies. The estimated cost is \$71,160, \$86,058, and \$88,247 in FY 2007, FY 2008, and FY 2009, respectively.

	FY08	FY09	FY10
Revenues	\$3,468,240	\$3,982,053	\$4,495,867
Expenditures	(191,959)	(156,837)	(159,026)
Net Fiscal Impact	\$3,276,281	\$3,825,216	\$4,336,841

The SAO assumes this proposal will have an impact on local government; however, due to the large number of political subdivisions, the impact is not quantifiable.

Fiscal Note Summary

The proposed revisions to Missouri's wage rate laws generates an estimated \$3.3 million to \$4.3 million annually in state revenue. The impact on local government is unknown.