

THE MINIMUM WAGE: BACKGROUND, HISTORY, AND \$40

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Outline of Presentation

- ❖ Vermont's current minimum wage
- ❖ Historical summary of the minimum wage
- ❖ Income distribution in Vermont
- ❖ The Vermont Livable Wage
- ❖ The minimum wage across the U.S.
- ❖ States that have recently increased their minimum wage
- ❖ Comparison of recent minimum wage increases
- ❖ S.40 walkthrough
- ❖ Overview of wage increases under S.40
- ❖ Economic analysis of wage increases

Vermont's Minimum Wage

- ❖ Currently \$10.50 per hour for most employees.
 - ❖ Under current law, the minimum wage will annually increase by the percentage increase in the CPI or 5%, whichever is less, beginning on January 1, 2019.
- ❖ Service or tipped employees in the hotel, motel, tourist place, and restaurant industry must receive a basic wage equal to at least $\frac{1}{2}$ the minimum wage before tips.
- ❖ A “service or tipped employee” is “an employee of a hotel, motel, tourist place, or restaurant who customarily and regularly receives more than \$120.00 per month in tips for direct and personal customer service.”

Vermont's Minimum Wage Statute

21 V.S.A. § 384(a)

(a) An employer shall not employ any employee at a rate of less than \$9.15. Beginning on January 1, 2016, an employer shall not employ any employee at a rate of less than \$9.60. Beginning on January 1, 2017, an employer shall not employ any employee at a rate of less than \$10.00. Beginning on January 1, 2018, an employer shall not employ any employee at a rate of less than \$10.50, and beginning on January 1, 2019 and on each subsequent January 1, the minimum wage rate shall be increased by five percent or the percentage increase of the Consumer Price Index, CPI-U, U.S. city average, not seasonally adjusted, or successor index, as calculated by the U.S. Department of Labor or successor agency for the 12 months preceding the previous September 1, whichever is smaller, but in no event shall the minimum wage be decreased. The minimum wage shall be rounded off to the nearest \$0.01. An employer in the hotel, motel, tourist place, and restaurant industry shall not employ a service or tipped employee at a basic wage rate less than one-half the minimum wage. As used in this subsection, "a service or tipped employee" means an employee of a hotel, motel, tourist place, or restaurant who customarily and regularly receives more than \$120.00 per month in tips for direct and personal customer service. If the minimum wage rate established by the U.S. government is greater than the rate established for Vermont for any year, the minimum wage rate for that year shall be the rate established by the U.S. government.

A Brief History of the Minimum Wage

- ❖ The original federal minimum wage of \$0.25 per hour took effect on October 24, 1938.
- ❖ The federal minimum wage is currently \$7.25 per hour.
- ❖ Vermont enacted its own minimum wage statute in Act 32 of 1959, at a rate of \$1.00 per hour.
- ❖ From 1959 through 2016, Vermont's nominal minimum wage increased by an average of 4.6% per year.
 - ❖ When adjusted for inflation by the CPI, the minimum wage increased by an average of 0.8% per year.

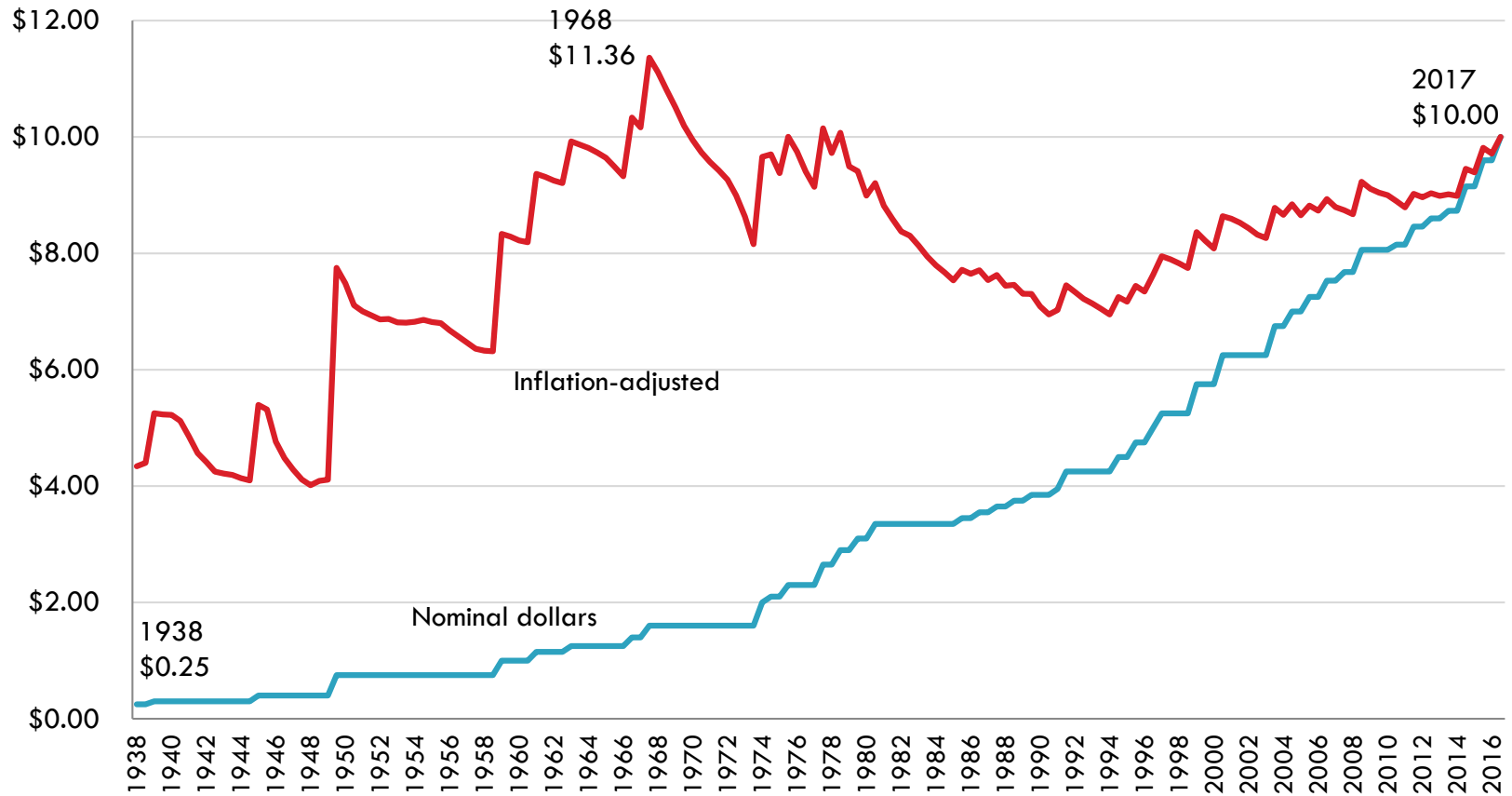
Historical Summary of Vermont's Minimum Wage: 1938 to 1992

Year	Wage	Reason for Increase
October 24, 1938	\$0.25	Enactment of federal minimum wage.
October 24, 1939	\$0.30	Federal minimum wage increase.
October 24, 1945	\$0.40	Federal minimum wage increase.
January 25, 1950	\$0.75	Federal minimum wage increase.
September 1, 1959	\$1.00	Act 32 of 1959.
September 3, 1961	\$1.15	Federal minimum wage increase.
September 3, 1963	\$1.25	Federal minimum wage increase, followed by Act 35 of 1965.
April 17, 1967	\$1.40	Act 177 of 1967.
February 1, 1968	\$1.60	Federal minimum wage increase, followed by Act 67 of 1969.
July 1, 1974	\$2.00	Act 203 of 1972.
January 1, 1975	\$2.10	Act 265 of 1974.
January 1, 1976	\$2.30	Act 265 of 1974.
May 1, 1978	\$2.65	Act 244 of 1978.
January 1, 1979	\$2.90	Act 244 of 1978.
January 1, 1980	\$3.10	Act 244 of 1978.
January 1, 1981	\$3.35	Act 244 of 1978.
July 1, 1986	\$3.45	Act 80 of 1985.
July 1, 1987	\$3.55	Act 80 of 1985.
July 1, 1988	\$3.65	Act 80 of 1985.
July 1, 1989	\$3.75	Act 181 of 1988.
April 1, 1990	\$3.85	Act 181 of 1988 and Act 131 of 1990.
July 1, 1991	\$3.95	Act 181 of 1988.
January 1, 1992	\$4.25	Federal minimum wage increase.

Historical Summary of Vermont's Minimum Wage: 1995 to 2019

Year	Wage	Reason for Increase
January 1, 1995	\$4.50	Act 227 of 1994.
January 1, 1996	\$4.75	Act 227 of 1994.
January 1, 1997	\$5.00	Act 150 of 1996.
July 1, 1997	\$5.15	Act 4 of 1997.
October 1, 1997	\$5.25	Act 4 of 1997.
September 30, 1999	\$5.75	Act 21 of 1999.
January 1, 2001	\$6.25	Act 119 of 2000.
January 1, 2004	\$6.75	Act 67 of 2003.
July 1, 2005	\$7.00	Act 82 of 2005.
January 1, 2006	\$7.25	Act 82 of 2005.
January 1, 2007	\$7.53	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2008	\$7.68	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2009	\$8.06	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2010	\$8.06	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2011	\$8.15	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2012	\$8.46	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2013	\$8.60	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2014	\$8.73	Annual CPI increase pursuant to Act 82 of 2005.
January 1, 2015	\$9.15	Act 176 of 2014.
January 1, 2016	\$9.60	Act 176 of 2014.
January 1, 2017	\$10.00	Act 176 of 2014.
January 1, 2018	\$10.50	Act 176 of 2014.
January 1, 2019	\$10.50 + (5% or % increase in CPI-U, whichever is less)	Annual CPI increase pursuant to Act 176 of 2014.

Vermont's Minimum Wage, Nominal and Inflation-Adjusted using CPI, 1938-2017



Prepared by the Joint Fiscal Office.

Current Conditions in Vermont

- ❖ Roughly 90% of Vermont employers have 20 or fewer employees.
 - ❖ Those employers are responsible for 1/3 of Vermont's private jobs and pay 30% of private sector wages.
- ❖ Industries with a large share of workers that would be affected by an increase in the minimum wage include:
 - ❖ Gasoline stations
 - ❖ Retail stores
 - ❖ Food and beverage stores
 - ❖ Warehousing and storage
 - ❖ Food services and drinking places
 - ❖ Textile and apparel manufacturing
 - ❖ Furniture and wood product manufacturing
 - ❖ Large food product manufacturing
 - ❖ Nonprofits and social services
 - ❖ Child care

Characteristics of Minimum Wage Workers

- ❖ 42% of all minimum wage workers are the head of a family (either a couple or single parent family).
 - ❖ 40% of those workers earn at least $\frac{1}{2}$ of their family's income.
- ❖ 59% of all minimum wage workers are over age 30.
- ❖ 48% of all female minimum wage workers are older than 40, while only 32% of all male workers are older than 40.
- ❖ 49% of all male minimum wage workers are under the age of 30, while only 36% of all female minimum wage workers are younger than 30.

Income Distribution in Vermont

- ❖ About 25,500 jobs, or 8.5% of Vermont jobs, are at the minimum wage of \$10.50.
- ❖ In 2016, when the minimum wage was \$9.60:
 - ❖ Hourly wages at the 10th percentile were \$10.45;
 - ❖ Hourly wages at the median, or 50th percentile, were \$18.23; and
 - ❖ Hourly wages at the 90th percentile were \$38.85.

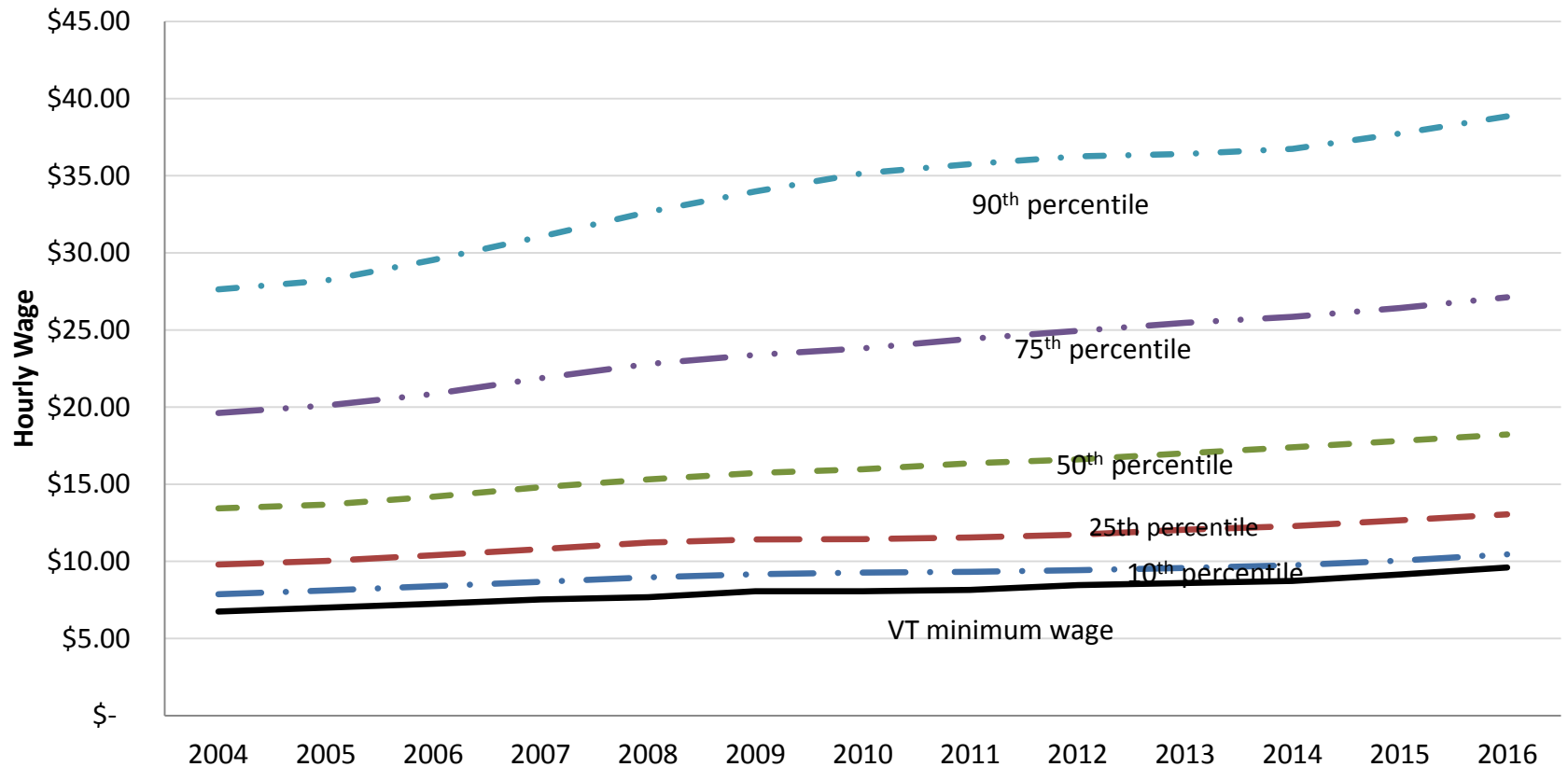
Growing Disparity in Incomes

- ❖ Growing disparity in incomes in the United States, sometimes called income inequality, is a well-known phenomenon.
- ❖ Growth in hourly wages in Vermont from 2004 to 2016 was larger at the top of the wage distribution than at the bottom.
- ❖ During that time period:
 - ❖ Nominal wages at the 10th percentile increased 2.4% per year;
 - ❖ Nominal wages at the 50th percentile increased 2.6% per year; and
 - ❖ Nominal wages at the 90th percentile increased 2.9% per year.
- ❖ Over the same period, Vermont's minimum wage rose 3.0%.

Growing Disparity in Incomes

- ❖ In addition to hourly wages, analysts also look at income disparity over time, comparing incomes at the top of the distribution to incomes at the bottom.
- ❖ Income includes not only earned income but also income from assets such as stocks or bonds or rental properties.
- ❖ Thus, income disparity can also be measured by comparing the ratio of the top 5% of average U.S. household income to the lowest 20%.
- ❖ That ratio has increased from about 17.6 in 1967 to about 29 in 2016
 - ❖ This means that in 2016, the average income of the top 5% was \$375,000.00 compared to \$12,900.00 for the lowest 20%.

Vermont Wage Distribution and the Vermont Minimum Wage, 2004-2016



Source: Occupational Employment Statistics Survey. Data include salaried workers as well as workers paid by the hour. Prepared by the Joint Fiscal Office.

The Vermont Basic Needs Budget

- ❖ A Basic Needs Budget is a market-based analysis that accounts for estimated monthly living expenses in Vermont.
- ❖ Includes costs for essential items such as food, housing, transportation, child care, clothing and household expenses, telecommunications charges, health and dental care, renter's insurance, life insurance, and savings.
- ❖ The budget differs based on family size and whether the family lives in an urban or rural part of Vermont.

The Vermont Basic Needs Budget

2016 Basic Needs Budget Wages, Per Earner [2]

Family Type	Urban	Rural
Single Person	\$17.64	\$15.76
Single Person, Shared Housing	\$14.46	\$12.98
Single Parent, One Child	\$29.50	\$25.11
Single Parent, Two Children	\$38.16	\$32.52
Two Adults, No Children	\$13.54	\$12.51
Two Adults, Two Children (one wage earner)	\$32.63	\$30.67
Two Adults, Two Children (two wage earners)	\$21.97	\$20.35

The Vermont Livable Wage

- ❖ The Vermont Livable Wage is “the hourly wage required for a full-time worker to pay for one-half of the basic needs budget for a two-person household with no children and employer-assisted health insurance averaged for both urban and rural areas.” 2 V.S.A. § 505.
- ❖ Vermont’s Livable Wage was first estimated in 1998.
- ❖ The 2016 Vermont Livable Wage was \$13.03 per hour.
- ❖ Between 1998 and 2016, the Vermont Livable Wage increased by 2.6% per year.
 - ❖ Over that same period, the Vermont minimum wage increased 3.4% per year.

Consolidated State Minimum Wage Update Table

Source: U.S. Department of Labor

Greater Than Federal Min. Wage	Equals Federal Min. Wage of \$7.25	Less Than Federal Min. Wage	No Min. Wage Required
AK - \$9.84	IA	GA - \$5.15	AL
AR - \$8.50	ID	WY - \$5.15	LA
AZ - \$10.50	IN		MS
CA - \$11.00	KS		SC
CO - \$10.20	KY		TN
CT - \$10.10	NC		
DC - \$12.50	ND		
DE - \$8.25	NH		
FL - \$8.25	OK		
HI - \$10.10	PA		
IL - \$8.25	TX		
MA - \$11.00	UT		
MD - \$9.25	VA		
ME - \$10.00	WI		
MI - \$9.25			
MN - \$9.65			
MO - \$7.85			
MT - \$8.30			
NE - \$9.00			
NJ - \$8.60			
NM - \$7.50			
NY - \$10.40			
NV - \$8.25			
OH - \$8.30			
OR - \$10.25			
RI - \$10.10			
SD - \$8.85			
VT - \$10.50			
WA - \$11.50			
WV - \$8.75			

Current State Minimum Wages Above \$7.25 from Highest to Lowest

Rank	State(s)	Minimum Wage
1	Washington, D.C. ¹	\$12.50
2	Washington	\$11.50
3	Massachusetts	\$11.00
4	California ² , Arizona, and Vermont	\$10.50
5	New York ³	\$10.40
6	Oregon ⁴	\$10.25
7	Colorado	\$10.20
8	Connecticut, Hawaii, and Rhode Island	\$10.10
9	Maine	\$10.00
10	Alaska	\$9.84
11	Minnesota	\$9.65
12	Maryland and Michigan	\$9.25
13	Nebraska	\$9.00
14	South Dakota	\$8.85
15	West Virginia	\$8.75
16	New Jersey	\$8.60
17	Arkansas	\$8.50
18	Montana and Ohio	\$8.30
19	Delaware, Florida, Illinois, and Nevada	\$8.25
20	Missouri	\$7.85
21	New Mexico	\$7.50

¹ Washington, D.C.'s minimum wage will increase to \$13.25 on July 1.

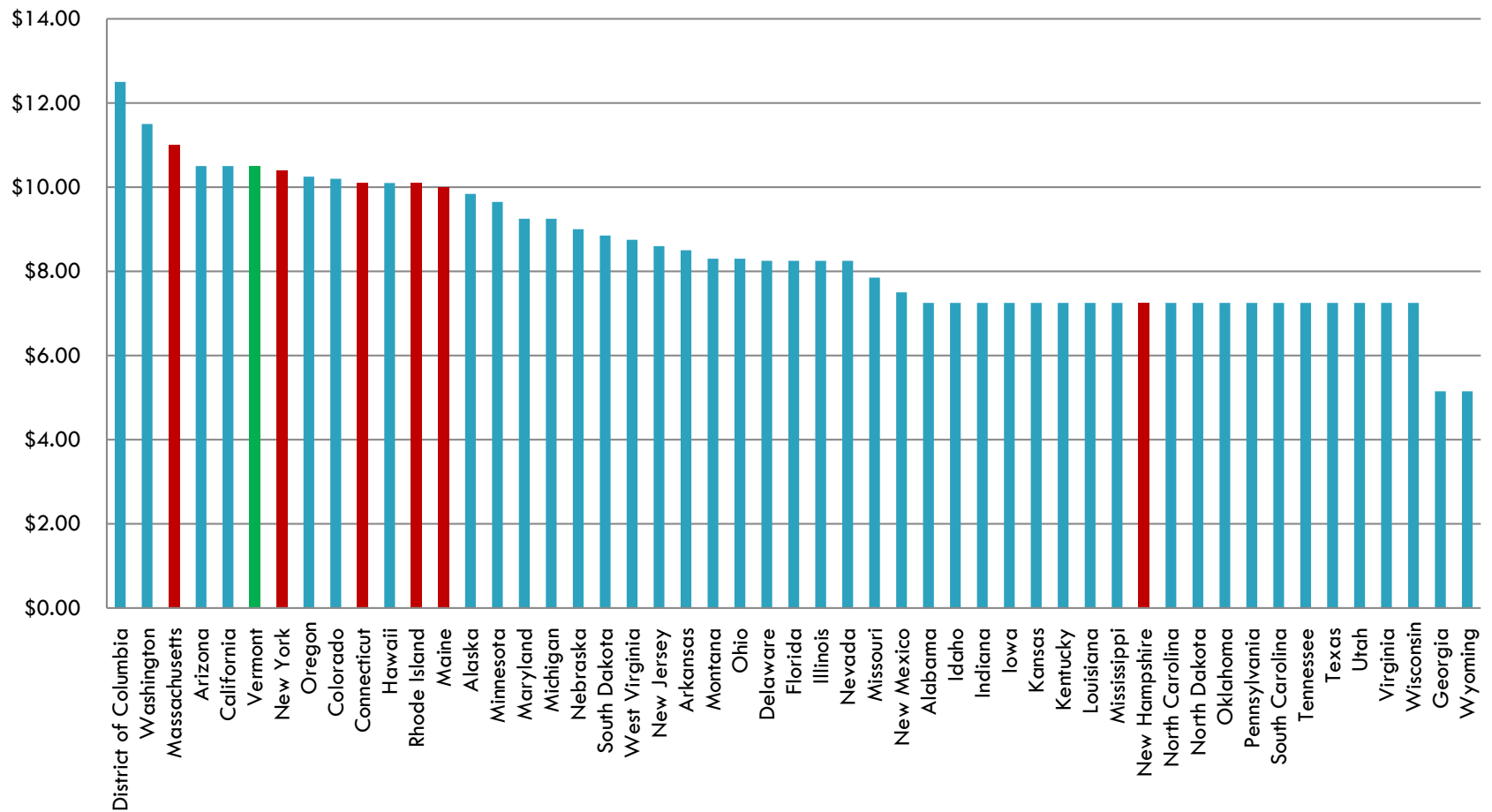
² California's minimum wage for employers with 26 or more employees is \$11.00.

³ New York's minimum wage ranges from \$10.40 to \$13.00 depending on an employer's location and number of employees.

⁴ Oregon's minimum wage will increase to \$10.75 on July 1. In addition, Oregon's statute provides for a higher minimum wage in the Portland metropolitan area and a lower minimum wage in certain rural counties.

Minimum Wage by State

with the New England States and New York Highlighted



Summary of State Minimum Wage Increases in 2018

- ❖ 18 states began 2018 with higher minimum wages.
 - ❖ Eight states (Alaska, Florida, Minnesota, Missouri, Montana, New Jersey, Ohio, and South Dakota) automatically increased their rates based on the cost of living
 - ❖ 10 states (Arizona, California, Colorado, Hawaii, Maine, Michigan, New York, Rhode Island, Vermont and Washington) increased their rates due to previously approved legislation or ballot initiatives.
 - ❖ The minimum wages in Washington, D.C. and Oregon are scheduled to increase on July 1.

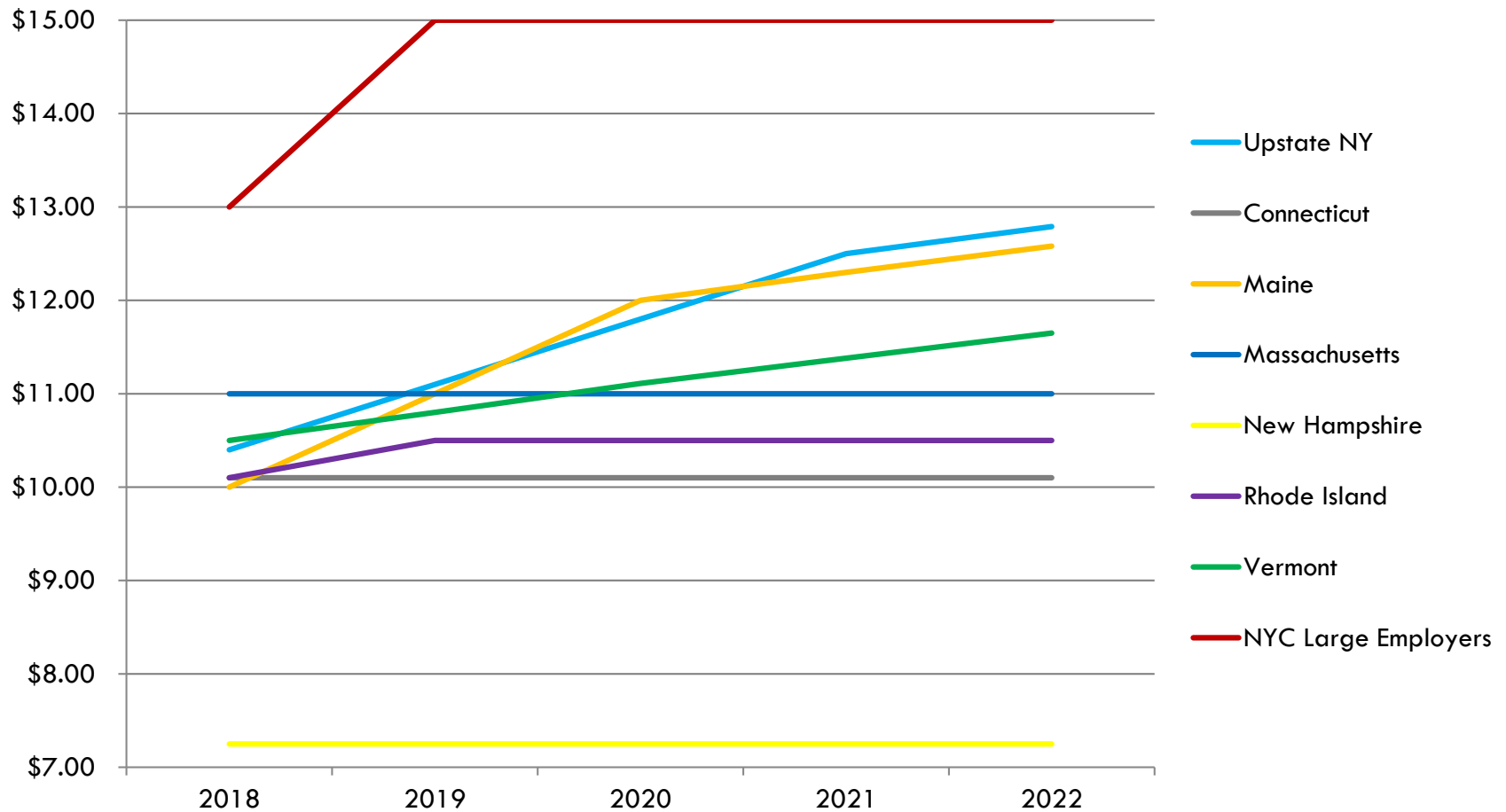
Side-by-Side Comparison of Minimum Wage Increases Between Selected States and Washington, DC

Year	California	Washington, D.C.	Oregon	Washington	Arizona	Colorado
2018	≥26: \$11.00 ≤25: \$10.50	\$12.50/\$13.25	Standard: \$10.25/\$10.75 Portland: \$11.25/\$12.00 Non-urban: \$10.00/\$10.50	\$11.50	\$10.50	\$10.20
2019	≥26: \$12.00 ≤25: \$11.00	\$13.25/\$14.00	Standard: \$10.75/\$11.25 Portland: \$12.00/\$12.50 Non-urban: \$10.50/\$11.00	\$12.00	\$11.00	\$11.10
2020	≥26: \$13.00 ≤25: \$12.00	\$14.00/\$15.00	Standard: \$11.25/\$12.00 Portland: \$12.50/\$13.25 Non-urban: \$11.00/\$11.50	\$13.50	\$12.00	\$12.00
2021	≥26: \$14.00 ≤25: \$13.00	\$15.00/ Increased by CPI	Standard: \$12.00/\$12.75 Portland: \$13.25/\$14.00 Non-urban: \$11.50/\$12.00	Increased by CPI	Increased by CPI	Increased by CPI
2022	≥26: \$15.00 ≤25: \$14.00	Increased by CPI	Standard: \$12.75/\$13.50 Portland: \$14.00/\$14.75 Non-urban: \$12.00/\$12.50	Increased by CPI	Increased by CPI	Increased by CPI
2023	≥26: \$15.00 ≤25: \$15.00	Increased by CPI	Standard: Increased by CPI Portland: Standard+\$1.25 Non-urban: Standard-\$1.00	Increased by CPI	Increased by CPI	Increased by CPI
2024	≥26: Increased by CPI or 3.5%, whichever is less. ≤25: Increased by CPI or 3.5%, whichever is less.	Increased by CPI	Standard: Increased by CPI Portland: Standard+\$1.25 Non-urban: Standard-\$1.00	Increased by CPI	Increased by CPI	Increased by CPI

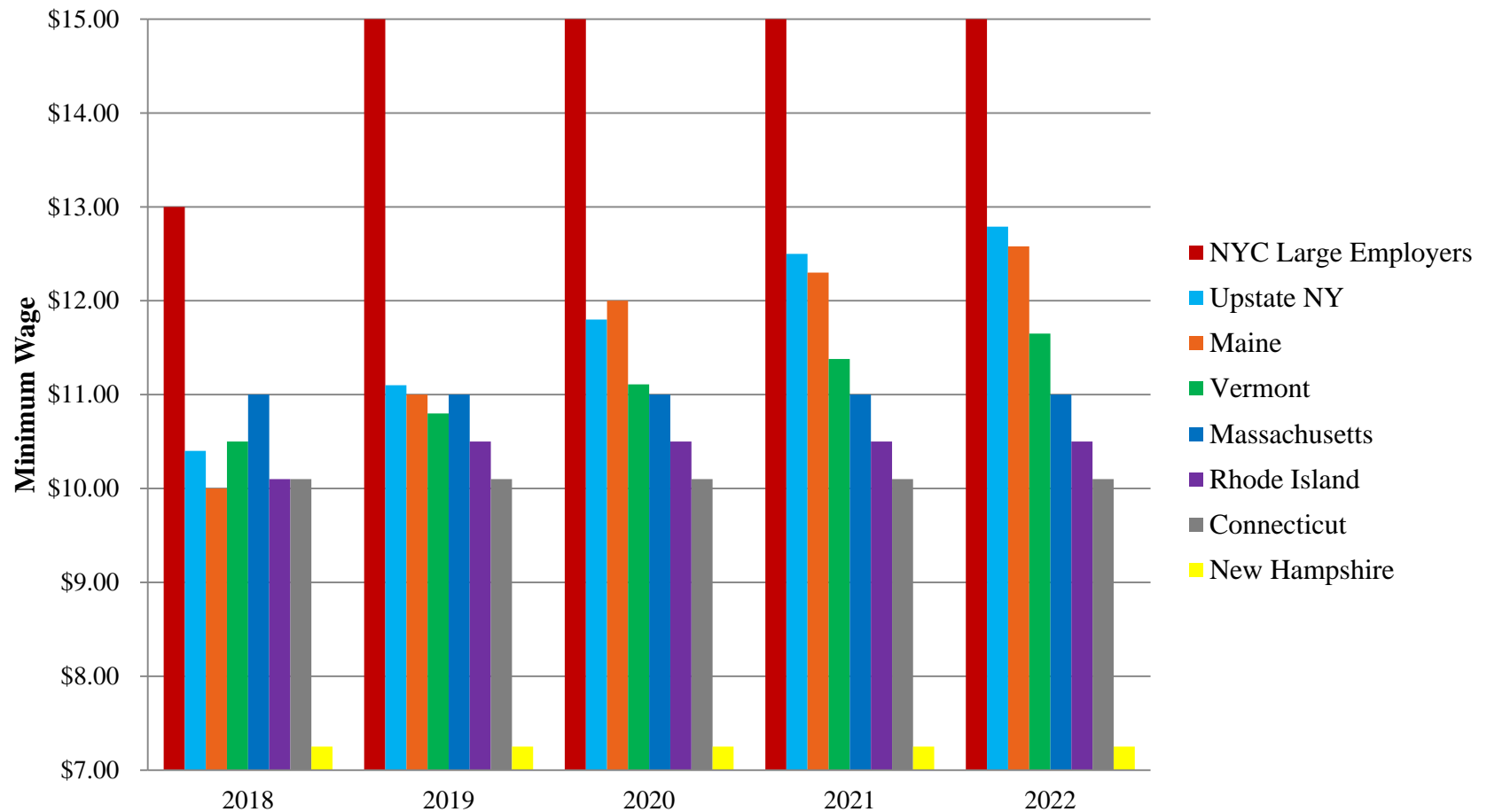
COMPARISON OF MINIMUM WAGE INCREASES IN NEW ENGLAND AND NEW YORK STATE

Year	New York	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
2018	NYC \geq 11: \$13.00 NYC \leq 10: \$12.00 Downstate NY: \$11.00 Upstate NY: \$10.40	\$10.10	\$10.00	\$11.00	\$7.25	\$10.10	\$10.50
2019	NYC \geq 11: \$15.00 NYC \leq 10: \$13.50 Downstate NY: \$12.00 Upstate NY: \$11.10	\$10.10	\$11.00	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2020	NYC \geq 11: \$15.00 NYC \leq 10: \$15.00 Downstate NY: \$13.00 Upstate NY: \$11.80	\$10.10	\$12.00	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2021	NYC \geq 11: \$15.00 NYC \leq 10: \$15.00 Downstate NY: \$14.00 Upstate NY: \$12.50	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less
2022	NYC \geq 11: \$15.00 NYC \leq 10: \$15.00 Downstate NY: \$15.00 Upstate NY: Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	Increased by CPI or 5%, whichever is less

Comparison of Minimum Wage Increases in New England and New York State; 2018-2022



Comparison of Minimum Wage Increases in New England and New York State; 2018-2022



Text of S.40

Sec. 1. 21 V.S.A. § 384(a)

Amended Portion of Subsection:

(a) An employer shall not employ any employee at a rate of less than \$9.15. ~~Beginning January 1, 2016, an employer shall not employ any employee at a rate of less than \$9.60. Beginning January 1, 2017, an employer shall not employ any employee at a rate of less than \$10.00.~~ Beginning on January 1, 2018, an employer shall not employ any employee at a rate of less than \$10.50, ~~and beginning~~. Beginning on January 1, 2019, an employer shall not employ any employee at a rate of less than \$11.10. Beginning on January 1, 2020, an employer shall not employ any employee at a rate of less than \$11.75. Beginning on January 1, 2021, an employer shall not employ any employee at a rate of less than \$12.50. Beginning on January 1, 2022, an employer shall not employ any employee at a rate of less than \$13.25. Beginning on January 1, 2023, an employer shall not employ any employee at a rate of less than \$14.10. Beginning on January 1, 2024, an employer shall not employ any employee at a rate of less than \$15.00, and on each subsequent January 1, the minimum wage rate shall be increased by five percent or the percentage increase of the Consumer Price Index, CPI-U, U.S. city average, not seasonally adjusted, or successor index, as calculated by the U.S. Department of Labor or successor agency for the 12 months preceding the previous September 1, whichever is smaller, but in no event shall the minimum wage be decreased. *[Remaining Text of Subsection Omitted]*

Text of S.40

Sec. 1. 21 V.S.A. § 384(e)

(e)(1) A tip shall be the sole property of the employee or employees to whom it was paid, given, or left. An employer that permits patrons to pay tips by credit card shall pay an employee the full amount of the tip that the customer indicated, without any deductions for credit card processing fees or costs that may be charged to the employer by the credit card company.

(2) An employer shall not collect, deduct, or receive any portion of a tip left for an employee or credit any portion of a tip left for an employee against the wages due to the employee pursuant to subsection (a) of this section.

(3) This subsection shall not be construed to prohibit the pooling of tips among service or tipped employees as defined pursuant to subsection (a) of this section.

Text of S.40

Sec. 2. CHILD CARE FINANCIAL ASSISTANCE PROGRAM; STATE PLAN

To the extent funds are appropriated, the Commissioner for Children and Families shall amend the Department for Children and Families' federal Child Care and Development Fund State Plan to:

- (1) adjust the sliding scale of the Child Care Financial Assistance Program benefit to correspond with each minimum wage increase required pursuant to this act to ensure that the benefit percentage at each new minimum wage level remains the same as the percentage applied under the former minimum wage; and
- (2) adjust the market rate used to inform the fee scale in a manner that offsets the estimated increased cost of child care in Vermont resulting from the increase in the minimum wage required pursuant to this act.

Text of S.40

Sec. 3. MINIMUM WAGE; ADJUSTMENT FOR INFLATION; REPORT

On or before January 15, 2023, the Legislative Council and the Joint Fiscal Office shall submit a written report to the House Committee on General, Housing, and Military Affairs and the Senate Committee on Economic Development, Housing and General Affairs regarding potential mechanisms for indexing the minimum wage established pursuant to 21 V.S.A. § 384 to inflation after 2024. In particular, the report shall:

- (1) identify and examine mechanisms that other jurisdictions use to index their minimum wages to inflation and the potential benefits and disadvantages of each mechanism; and
- (2) identify and examine any alternative mechanisms to index the minimum wage to inflation, including alternative measures of inflation, and the potential benefits and disadvantages of each mechanism.

Text of S.40

Sec. 4. 21 V.S.A. § 383. DEFINITIONS

Terms used in this subchapter have the following meanings, unless a different meaning is clearly apparent from the language or context:

- (1) “Commissioner,” means the Commissioner of Labor or designee;
- (2) “Employee,” means any individual employed or permitted to work by an employer except:

* * *

- (3) “Occupation,” means an industry, trade, ~~or~~ business or branch thereof, or a class of work in which workers are gainfully employed.
- (4) “Tip” means a sum of money gratuitously and voluntarily left by a customer for service, or indicated on a bill or charge statement, to be paid to a service or tipped employee for directly and personally serving the customer in a hotel, motel, tourist place, or restaurant. An employer-mandated service charge shall not be considered a tip.

Text of S.40



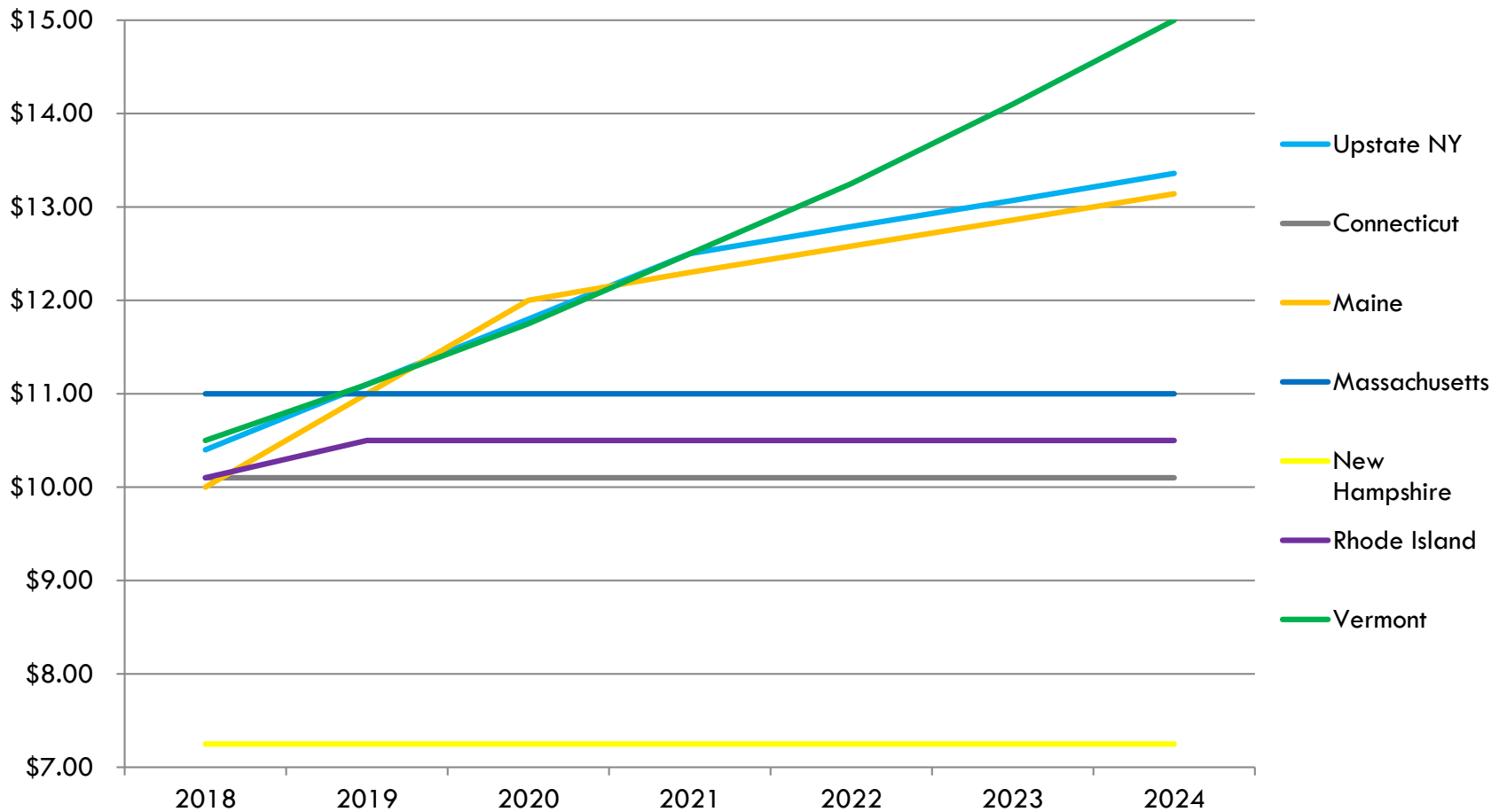
Sec. 5. EFFECTIVE DATE

This act shall take effect on July 1, 2018.

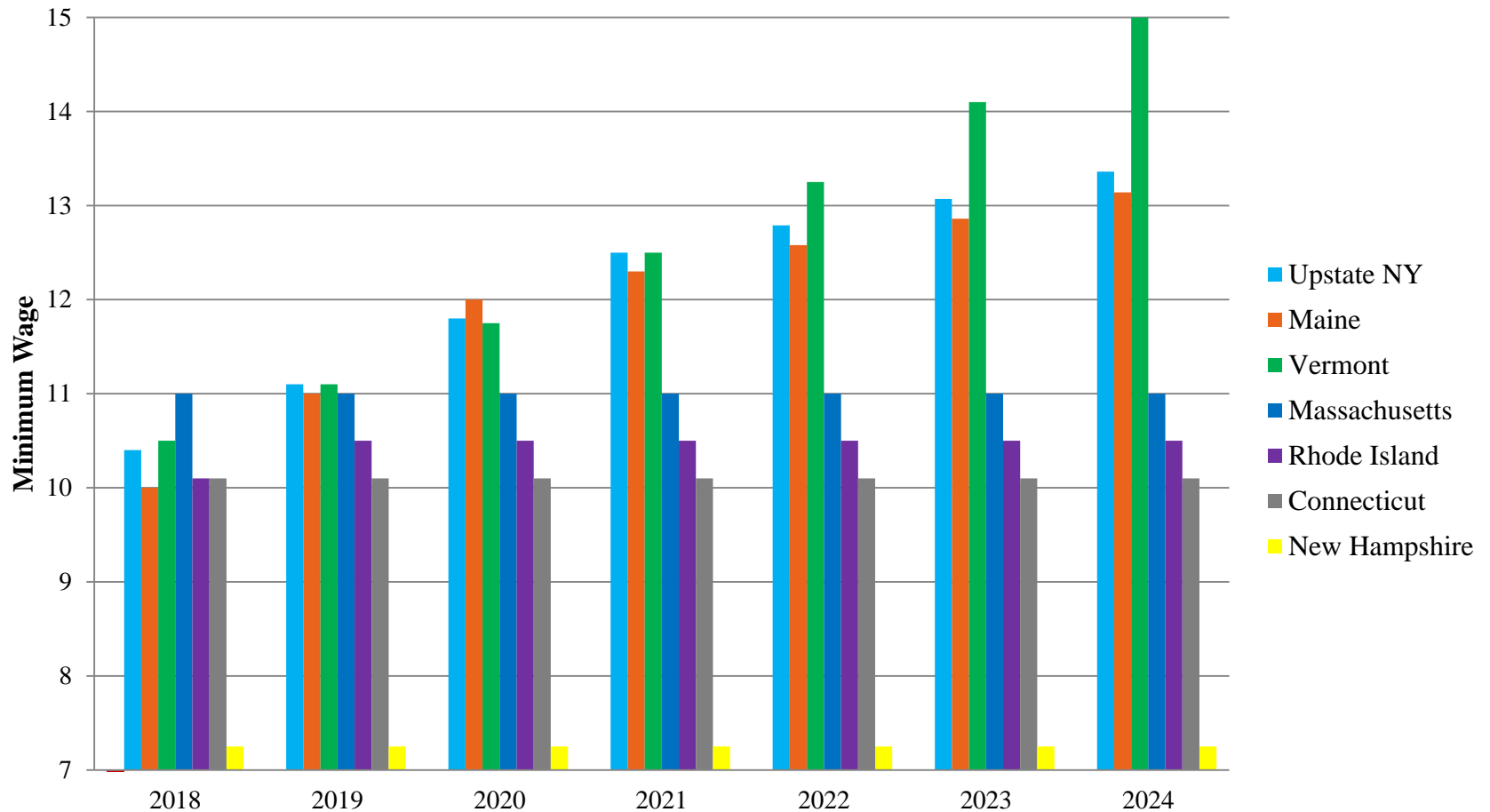
Comparison of Minimum Wage Increases in New England and Upstate New York Under S.40

Year	Upstate New York	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
2018	\$10.40	\$10.10	\$10.00	\$11.00	\$7.25	\$10.10	\$10.50
2019	\$11.10	\$10.10	\$11.00	\$11.00	\$7.25	\$10.50	\$11.10
2020	\$11.80	\$10.10	\$12.00	\$11.00	\$7.25	\$10.50	\$11.75
2021	\$12.50	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$12.50
2022	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$13.25
2023	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$14.10
2024	Increased by % determined by Dir. of Budget until it reaches \$15.00.	\$10.10	Increased by CPI	\$11.00	\$7.25	\$10.50	\$15.00

Comparison of Minimum Wage Increases in New England and Upstate New York Under S.40; 2018-2024



Comparison of Minimum Wage Increases in New England and Upstate New York Under S.40; 2018-2024



Effects of Raising Vermont's Minimum Wage

- ❖ Quick overview today
- ❖ More in-depth analysis is available in the Final Report of the Minimum Wage Study Committee, a JFO Issue Brief, and various background materials
 - ❖ http://www.leg.state.vt.us/jfo/Minimum_Wage_Study_Committee/Minimum%20Wage%20and%20Benefits%20Cliff%20Study%20Committee%20Report.pdf
 - ❖ http://www.leg.state.vt.us/jfo/issue_briefs_and_memos/Issue_Brief_Two_Minimum_Wage_Studies.pdf
 - ❖ http://www.leg.state.vt.us/jfo/min_wage_notebook.aspx

Vermont-Specific Effects

- ❖ Kavet, Rockler & Associates, LLC have provided several analyses of raising Vermont's minimum wage
 - ❖ March 2014
 - ❖ \$10.00 and \$12.50 in 2015
 - ❖ February 2017, April 2017
 - ❖ \$15.00 in 2022
 - ❖ October 2017
 - ❖ \$12.50 in 2021
 - ❖ \$13.25 in 2022
 - ❖ \$15.00 in 2022

Effects on Employment and Employees

❖ Positive effects

- ❖ Reduced employee turnover
- ❖ Increased productivity
- ❖ Increased disposable income and increased demand for goods and services by employees

❖ Negative effects

- ❖ Job losses
- ❖ Reduced employee hours or benefits and training
- ❖ Slower wage growth overall

Effects on Businesses and Consumers

- ❖ For businesses, increased labor costs from changes in the minimum wage could result in lower profit margins
 - ❖ Some businesses might choose to relocate to another state or to invest in automation in an effort to reduce labor costs
- ❖ For consumers, increased labor costs might lead to higher prices
 - ❖ For example, higher restaurant prices might ensue

Most Recent Analysis

- ❖ Fiscal Note on S.40, February 8, 2018
- ❖ [http://www.leg.state.vt.us/jfo/fiscal notes/2018 S 40 Fiscal note for minimum wage bill S 40.pdf](http://www.leg.state.vt.us/jfo/fiscal%20notes/2018%20S%2040%20Fiscal%20note%20for%20minimum%20wage%20bill%20S%2040.pdf)

Table 1. Minimum Wage Paths in Nominal Dollars, Current Law and Proposed Path					
	CPI inflation (Consensus)	Current Law	\$15 in 2024	Annual Increase	Difference from Current Law
2018	2.5%	\$10.50	\$10.50		\$0.00
2019	2.9%	\$10.80	\$11.10	\$0.60	\$0.30
2020	2.8%	\$11.11	\$11.75	\$0.65	\$0.64
2021	2.5%	\$11.38	\$12.50	\$0.75	\$1.12
2022	2.3%	\$11.65	\$13.25	\$0.75	\$1.60
2023	2.2%	\$11.90	\$14.10	\$0.85	\$2.20
2024	2.2%	\$12.16	\$15.00	\$0.90	\$2.84

Inflation-adjusted path under S.40

Table 2. Minimum Wage Paths in Inflation-Adjusted Dollars, Current Law and Proposed Path					
	CPI inflation (Consensus)	Current Law	\$15 in 2024	Annual Increase	Difference from Current Law
2018	2.5%	\$10.50	\$10.50		\$0.00
2019	2.9%	\$10.50	\$10.79	\$0.29	\$0.29
2020	2.8%	\$10.50	\$11.11	\$0.32	\$0.61
2021	2.5%	\$10.50	\$11.53	\$0.42	\$1.03
2022	2.3%	\$10.50	\$11.95	\$0.42	\$1.45
2023	2.2%	\$10.50	\$12.44	\$0.49	\$1.94
2024	2.2%	\$10.50	\$12.95	\$0.51	\$2.45

Direct Fiscal Impact for State Budget

- ❖ Increased State revenue
 - ❖ Income taxes, other taxes and fees
- ❖ Higher wages paid to State employees
 - ❖ State workers and contractors
- ❖ Possible impacts on State program benefit levels
 - ❖ Changes in eligibility
- ❖ Note that gradual increase in the minimum wage over 6 years will spread out the impacts

Net Fiscal Impact in FY 2019 and 2020

- ❖ Net fiscal gain to the State's budget from increased tax revenue and decreased benefit payments
 - ❖ FY2019: about \$150,000 in 2018 dollars (6 mos. only)
 - ❖ FY2020: about \$2 million in 2018 dollars
- ❖ Between 40% and 42% of the net fiscal gain comes from higher revenues
- ❖ The remainder comes from State savings in the State Earned Income Tax Credit (EITC), renter rebate, property tax adjustment, and homeowner rebate

Increased Wages Paid by the State

❖ State employees

- ❖ Estimated yearly cost, FY 2019-2024, ~\$600,000
 - ❖ Smaller in earlier years, larger in later years
 - ❖ Includes pay, State contributions for Social Security and Medicare, and retirement contributions where relevant
- ❖ Most costs come from temporary workers
- ❖ Historically, ~40 percent of the cost of the State workforce has been covered by federal or other funding sources
 - ❖ That share could change going forward

Increased State Wages, continued

- ❖ The cost of State contracts could increase
 - ❖ AOT contractors
 - ❖ Most AOT contracts are subject to federal Davis-Bacon wage requirements, so any increase would be minimal
 - ❖ Designated Agency and Specialized Service Agency organizations, now pegged at \$14/hour
 - ❖ Home Health and Personal Care organizations
 - ❖ Federal reimbursement rates do not change with wages paid
- ❖ Public education
 - ❖ Pre-K – 12: examples suggest < 0.1 percent of budget
 - ❖ UVM: ~\$75,000; VT State Colleges: ~\$60,000

Increased State Wages, continued

- ❖ State Employees' Retirement and VT State Teachers Retirement Funds
 - ❖ Higher wages could mean higher liability
 - ❖ But temporary employees do not receive retirement benefits; for others, impact seems minimal
- ❖ Other State benefit programs
 - ❖ Largest effect is seen in child care subsidies
 - ❖ Also Medicaid, Reach Up, LIHEAP, EITC

Overall Economic Effects

- ❖ Many minimum wage workers earn more
 - ❖ Some minimum wage workers work fewer hours or lose their jobs: CY2019 ~200 fewer jobs, CY2020 ~350 fewer jobs
 - ❖ Rough estimate suggests 2,250 fewer jobs each year on average, 2028-2040
- ❖ During expansionary years, more people might be induced to enter the labor force
- ❖ Fewer federal funds coming to Vermont as eligibility for federal benefits drops, and higher federal tax liability for some, lead to a slightly lower level of GDP relative to current law
 - ❖ On average, VT GDP lower by 0.3%, 2028-2040

Table 2. Outcomes for the Minimum Wage Path that Reaches \$15 in 2024
PRELIMINARY CALENDAR-YEAR ESTIMATES BASED ON MODELING FOR THE STUDY COMMITTEE,
October 2017

	in 2019	in 2020	in 2024
Percent change from 2018 minimum wage, inflation-adjusted	3%	6%	23%
Approximate share of jobs at less than proposed minimum wage - DOL basis	10%	12%	22%
Approximate number of jobs at less than proposed minimum wage (DOL basis*)	31,900	37,900	65,500
Initial wage bill change as a share of total wages & salary	0.02%	0.25%	1.5%
Aggregate initial income gains of low-wage workers (2018\$)	\$3 mil	\$30 mil	\$174 mil
Net fiscal gain to State from increased tax revenue & decreased benefit payments (2018\$)	\$0.3 mil	\$3.5 mil	\$20 mil
Net reduction in federal funds to State economy from decreased federal benefits and increased federal taxes (2018\$)	\$1 mil	\$9 mil	\$54 mil
Approximate net disemployment (#jobs)	200	350	950

Source: JFO Fiscal Note, February 7, 2018

Table 2. Outcomes for the Minimum Wage Path that Reaches \$15 in 2024
PRELIMINARY CALENDAR-YEAR ESTIMATES BASED ON MODELING FOR THE STUDY COMMITTEE,
October 2017

	Long-Term Outcomes, Average 2028-2040
Net annual long-term disemployment (#jobs)	2,250
Disemployment as a share of total jobs	0.5%
Disemployment as a share of minimum wage jobs	3.3%
Effect on level of Vermont GDP	-0.3%

Source: Illustrative outcomes based on Kavet Memorandum of Oct. 2, 2017 and interpolation; all outcomes here are presented by calendar year.

*Notes: The job count on the DOL basis counts wage and salary jobs, but excludes farm workers, the self-employed, and household workers; for further discussion of the outcomes, see the Study Committee Report.

Source: JFO Fiscal Note, February 7, 2018



Any Questions?