

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2013

Legislative Fiscal Note

BILL NUMBER: Senate Bill 220 (First Edition)

SHORT TITLE: State Minimum Wage/Inflation Increases.

SPONSOR(S): Senators D. Davis and Parmon

FISCAL IMPACT					
(\$ in millions)					
<input type="checkbox"/> Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> No Estimate Available					
State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	No estimate available. See Assumptions and Methodology.				
General Fund Expenditures:	0.0	0.0	0.0	0.0	0.0
State Positions:	N/A	N/A	N/A	N/A	N/A
NET STATE IMPACT	No estimate available. Please see Assumptions & Methodology section for additional details.				
Local Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Revenues:	No estimate available. See Assumptions and Methodology.				
Expenditures:	0.0	0.0	0.0	0.0	0.0
NET LOCAL IMPACT	No estimate available. Please see Assumptions & Methodology section for additional details.				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Labor					
EFFECTIVE DATE: When bill becomes law.					
TECHNICAL CONSIDERATIONS: Yes - See Technical Considerations Section					

BILL SUMMARY:

Amends G.S. 95-25.3 to add a new subsection (a1) that requires the minimum wage to be increased on January 1, 2014, and every January 1 thereafter, by the cost of living as measured by the percentage increase of the consumer price index calculated by the US Department of Labor.

Requires the Commissioner of Labor to calculate the indexed minimum wage.

Effective when the act becomes law.

Source: Bill Digest

ASSUMPTIONS AND METHODOLOGY:

Revenue

According to 2012 estimates provided by the US Bureau of Labor Statistics (BLS)¹, there are approximately 74,000 employees in North Carolina earning the minimum wage and 63,000 employees earning less than the minimum wage. The BLS data excludes any commissions, tips, overtime pay, and self-employed persons. Therefore, the 63,000 population estimate earning less than minimum wage contains employees that receive tips and commissions as a part of their overall compensation and certain employees that are permitted under federal law to earn less than the applicable minimum wage.

The automatic inflationary adjustment contained in the bill would affect the minimum wage rate applied to the estimated 74,000 employees included in the BLS data.

If all 74,000 employees worked full-time, the total annual compensation to these employees would be approximately \$1,115.92 million. Using the same BLS data, approximately 17.8% of minimum wage employees work at least 40 hours per week. The national median minimum wage employee works approximately 25 hours per week. If the 25 hours per week figure is applied to all 74,000 minimum wage employees within the State, the total compensation paid to minimum wage employees would be approximately \$697.45 million.

Moody's estimates that the CPI-U for the next five years to range from 2.32 – 2.54%. Applying a 2.43% inflationary adjustment to the total estimated payments made to minimum wage employees in the State would yield an additional \$16.95 million in compensation in the first year.

The additional income could result in increased State income tax revenue. Additional income could also increase consumer spending resulting in additional state and local sales tax revenue. However, the minimum wage increase does not take into consideration the possibility of reduced hours offered by employers, increased unemployment, or loss of taxable business/corporate income. There is not enough information available to determine the fiscal impact of these effects. Therefore, no estimate is available.

State Employees

Permanent Full-time Employees

The annual salary of an individual working full-time at the current federal minimum wage of \$7.25 per hour is \$15,080. In 2005, the General Assembly enacted a Fair Minimum Wage for all permanent full-time employees subject to the State Personnel Act (SPA) of \$20,112, or \$9.67 per hour. Due to legislative salary adjustments since FY 2005-06, the effective State minimum wage for permanent full-time employees subject to the State Personnel Act (SPA) is now \$22,332, or \$10.74 per hour. This reflects the hourly pay for employees in positions at the minimum of salary grade 50².

¹ <http://www.bls.gov/cps/minwage2012tbls.htm#9>

² <http://www.osp.state.nc.us/Guide/CompWebSite/Current%20Salary%20Plan%20Book.pdf>

Similarly in 2006, the General Assembly enacted a Fair Minimum Wage of \$20,112 for all permanent full-time non-certified employees in the public schools. Based on the Department of Public Instruction’s FY 2012-13 salary schedules,³ the current effective State minimum wage for public school non-certified employees is \$22,281, or \$10.71 per hour.

In addition, neither the North Carolina Community College System (NCCCS) nor the University of North Carolina (UNC) system have any State-funded full-time positions paid the federal minimum wage, \$7.25 per hour.

Temporary Employees

The Office of State Personnel created **Temporary Solutions** in 1986 to provide temporary staffing services for State Government agencies and departments. **Temporary Solutions** currently has no employees earning the federal minimum wage.

Seasonal and Student Employees

There are certain State employees, namely students (see G.S. 95-25.3(b)) and seasonal employees (see G.S. 95-25.3(d)), who may be paid less than the federal minimum wage. Given that no other State employees make the federal minimum wage of \$7.25 per hour, the cost (or savings, see Technical Consideration section) of inflationary changes to the minimum wage will depend on (1) the number of employees in these categories as well as (2) the number of employees actually paid at or below the federal minimum wage. No estimate of the expected cost (or savings) from inflationary changes to the federal minimum wage for this group of employees is available.

Table 1 provides the estimated minimum wage based upon projected increases in the consumer price index.

Table 1: CPI-U 5-Year Projection

Year	2013	2014	2015	2016	2017
Est. CPI-U	2.40%	2.54%	2.53%	2.40%	2.32%
Est. Min. Wage (per hour)	\$7.42	\$7.61	\$7.81	\$7.99	\$8.18

*CPI-U estimates provided by Moody’s economy.com

As shown in Table 1, over the next five years, the projected minimum wage remains below the lowest current hourly wage, without any cost of living adjustment (\$10.71), paid by the State to full-time employees. Consequently, the fiscal impact of S.B. 220 is expected to be minimal and to only affect agencies employing student and seasonal employees.

Department of Labor

Senate Bill 220 modifies the Wage and Hour Act which is administered by the Department of Labor. The Wage and Hour Division within the Department of Labor primarily administers the Wage and Hour Act by operating a call center available to employees working within North Carolina. The call center answers and investigates employee inquiries regarding employment wages along with other employee protection provisions detailed in the Wage and Hour Act.

³ <http://dpi.state.nc.us/docs/fbs/finance/salary/schedules/2012-13schedules.pdf>

The bill provides an automatic minimum wage adjustment that could modify the state minimum wage each year, depending on the publication of the Consumer Price Index – All Urban Consumers. The annual change in the minimum wage could potentially cause an increase in call volume to the Wage and Hour Division within the Department of Labor from employers overlooking or slowly implementing annual changes. However, there is not sufficient information available to conclude that call volume would substantially increase. Fiscal Research has contacted the Department of Labor and the Department stated it has existing resources available to administer any potential increase in call volume following annual minimum wage adjustments. No fiscal impact is anticipated.

Table 2 contains the adjustments that would have occurred in the previous five years if the inflationary adjustment mechanism provided in the bill was in effect. Note the negative year-over-year CPI-U calculation that occurred in 2009. Please see the technical considerations section.

Table 2: CPI-U 5-Year History

Year	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
CPI-U (Sept.)	4.94%	-1.29%	1.14%	3.87%	1.95%

SOURCES OF DATA: Department of Labor, Office of State Personnel, Department of Public Instruction

TECHNICAL CONSIDERATIONS:

1. The bill directs the Commissioner of Labor to increase the minimum wage on January 1 of each year based on the published September CPI-U. The bill does not provide guidance to the Commissioner of Labor in the event that the year-over-year CPI-U is negative.

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