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Budget Information Report

Potential Effects of Increasing Oregon's Minimum Wage

Overview

While many of the estimated costs to state and local government of an increase in the minimum wage are indeterminate, the following document provides information on some of the possible effects of an increase in the minimum wage and is intended to provide a sense of magnitude of cost, as well as context for a discussion of the various fiscal and policy effects of such a change.

Because there is no single set of data available to estimate the costs to state and local governments, a number of different data sources were relied upon to provide this estimate. These data sets exist for other purposes and, as such, may include or exclude positions and/or wage information that would affect the actual implementation costs of an increase in the minimum wage. The source of the data used for each estimate is noted in the report.

The cost estimates (in total funds) identified in this report generally assume the annual or biennial costs (as noted) of an immediate increase in the minimum wage from the current level to a \$13.50 and/or \$15.00 per hour level. Proposals to gradually phase in increases to reach these levels over multiple years would result in lower annual or biennial costs than those identified here that would be more easily incorporated into budgets through the normal budgeting process for state and local governments. In some isolated instances, projected costs for minimum wage increases phased-in over multiple years were able to be estimated for this report.

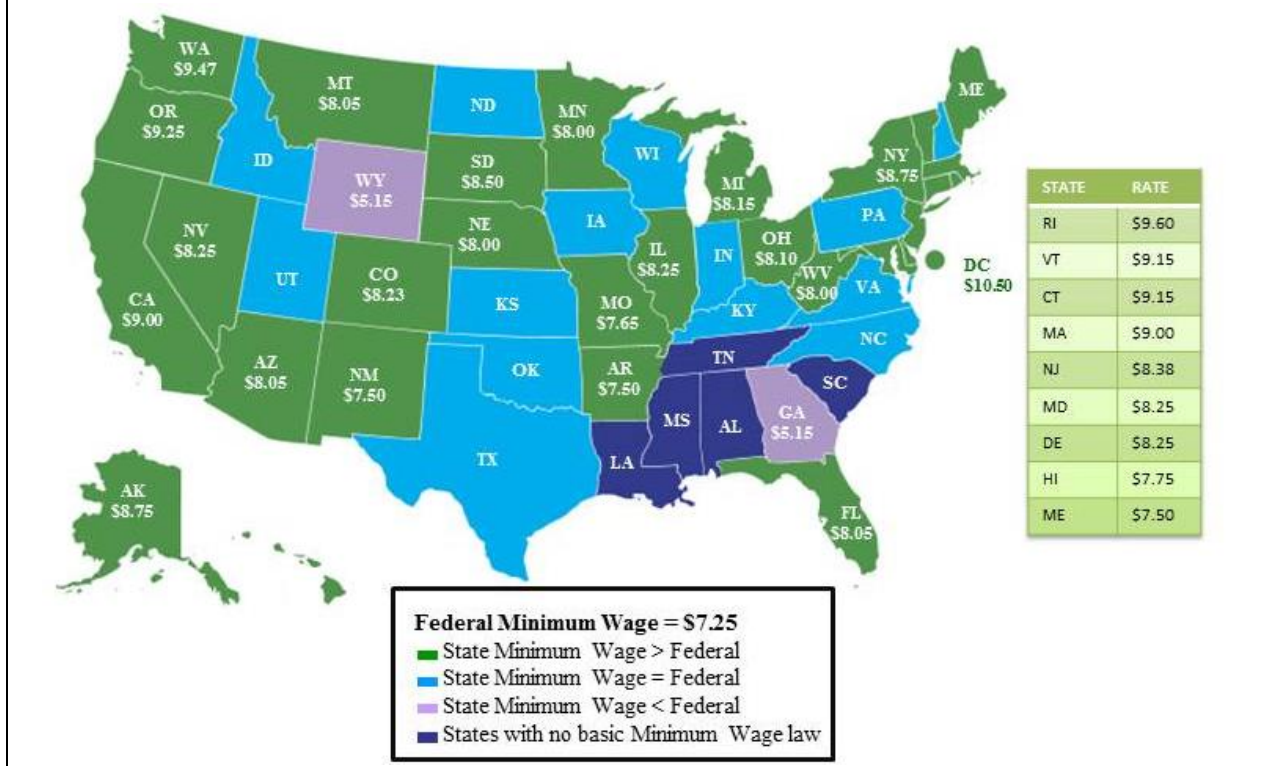
Again, the actual costs will be dependent on a number of factors, including position or wage adjustments that will occur prior to the effective date of an increase, the application of changes on either a statewide or regional basis, and, potentially, other law or policy changes that may occur.

Status of Current Minimum Wage

On the following page is a chart showing the minimum wage of each state and how it compares to the federal minimum wage requirement. Oregon is one of 29 states plus the District of Columbia with a minimum wage level that exceeds the federal minimum wage level of \$7.25. It should be noted that some states have more than one minimum wage level. For example, beginning in August 2016, Minnesota will have a minimum wage of \$9.00 per hour for employers with annual sales volumes of \$500,000 or more, while those employers with annual sales volumes of under \$500,000 are required to pay a minimum wage of \$7.25 per hour.

Minimum Wage Laws in States – July 2015

Source: United States Department of Labor



According to the Oregon Employment Department, during the first quarter of 2014 nearly 6% of all jobs in the state paid Oregon’s minimum wage (at that time) of \$9.10 per hour. Of the total number of jobs in Oregon, the percentage that pay minimum wage has ranged from 5 to 6 percent since 2003. The leisure and hospitality sector had the highest number of minimum wage jobs with 41,300 jobs paying \$9.10, followed by retail trade with 20,700 minimum wage jobs. Other industries with a large number of minimum wage jobs were professional and business services (9,600 jobs), natural resources and mining (7,600), and educational and health services (6,900). The following table provides information on the number of jobs in each county paying \$9.10 (the minimum wage at that time) or less as of the 1st Quarter 2014.

	Jobs	% of Total		Jobs	% of Total
Oregon	103,470	5.7%			
Malheur	1,397	10.9%	Union	715	7.1%
Harney	221	10.6%	Douglas	2,564	7.1%
Wheeler	30	10.2%	Clatsop	1,215	6.9%
Sherman	67	9.3%	Umatilla	2,113	6.9%
Jefferson	550	8.6%	Jackson	5,820	6.9%
Polk	1,575	8.5%	Linn	2,995	6.7%
Klamath	1,846	8.4%	Lane	9,579	6.4%
Baker	418	8.3%	Coos	1,452	6.3%
Lincoln	1,508	8.3%	Benton	2,250	6.3%
Josephine	2,036	8.1%	Wallowa	142	6.2%
Yamhill	2,792	8.1%	Tillamook	550	6.2%
Grant	170	8.1%	Crook	347	6.0%
Curry	490	7.8%	Deschutes	4,139	5.9%
Columbia	793	7.5%	Clackamas	8,948	5.8%
Hood River	1,099	7.5%	Morrow	256	4.7%
Marion	11,001	7.5%	Washington	13,031	4.6%
Lake	168	7.3%	Gilliam	38	4.5%
Wasco	781	7.2%	Multnomah	19,389	4.0%

Source: Oregon Employment Dept., Unemployment Insurance Wage Records

Direct Cost Estimates of an Increase in the Minimum Wage

State Government:

- Based on data from the Department of Administrative Services, an increase in the minimum wage to \$13.50 per hour could result in costs of approximately \$1.1 million, including Other Payroll Expenses (OPE),¹ for a full biennium, and an increase to \$15.00 per hour could result in costs of approximately \$4.8 million for a full biennium.² For context, costs of \$1.1 million represent 0.02% of the 2015-17 total funds budget for personal services for state government, while costs of \$4.8 million represent 0.07%. It should be noted that these costs are not based on Governor Brown's proposal, which includes a regional element and a phased-in increase beginning January 2017 at \$10.25 per hour statewide and \$11.79 per hour for the Portland metropolitan area, gradually increasing each year to \$13.50 statewide and \$15.52 for Portland by 2022 (thereafter increasing by the consumer price index). At this time, a fiscal impact statement for that proposal has not yet been prepared.
- A change in the minimum wage to \$13.50 per hour would currently affect 79 classifications that include steps below that amount.³ A change in the minimum wage to \$15.00 per hour would currently affect 182 classifications.⁴ Examples of the types of positions affected by a change to \$13.50 per hour include:
 - Entry level office assistants and specialists
 - Student workers
 - Livestock brand inspectors
 - Experimental biology aides
 - Military lease agents
 - Entry level wildland fire support specialists
 - Custodians
 - Food service workers

K-12 School Districts and Educational Service Districts:

- Based on data from the Department of Education, an increase in the minimum wage to \$13.50 per hour would result in direct costs of approximately \$23 million per biennium, including OPE.⁵ An increase in the minimum wage to \$15 per hour would result in costs of approximately \$52 million per biennium. For context, costs of \$23 million represent approximately 0.3% of the 2015-17 total School Fund.
- The types of positions that will be directly impacted by an increase to the minimum wage will include nutrition services personnel, instructional assistants, non-teacher substitutes, library/media support, clerical staff, student workers, and special education paraprofessionals.
- Volunteer positions compensated by stipend or a set contract rate (such as coaches and school board members) are currently paid at a rate that equates to less than the minimum wage. If the minimum wage is increased and the stipends for these types of volunteer positions remain the same, there will be a greater disparity between the values of these stipends relative to actual market wages in the state. It is not known at this time if this disparity will impact the total number or quality of volunteers utilized by school districts.

¹ Other Payroll Expenses are expenses other than salaries paid for employees, including retirement payments, Social Security taxes, health insurance costs, and other benefits associated with employment.

² This estimate excludes elected legislative members. Salaries for legislators, if calculated on an hourly basis, would be below the minimum wage if an increase to \$13.50 is implemented.

³ The number of classifications affected excludes elected legislative members.

⁴ Currently, there are almost 3,400 state position classifications.

⁵ The Oregon School Boards Association (OSBA) has produced an [Estimate of Minimum Wage Increase to \\$13.50 per Hour](#) based on raw survey information collected from schools that represent 51% of the average daily membership weighted (ADMw). The estimate provided in the document varies from the data provided by the Department of Education due to the assumptions used in the calculations. In addition to an estimate, the document includes comments from school districts describing a variety of impacts specific to their particular district. The OSBA methodology projects annual costs of approximately \$15 million.

- It is likely that an increase will affect eligibility for nutrition programs as well. This issue is discussed under the section heading, Impacts on Program Eligibility, later in this report.

Higher Education:

- The effect of an increase in the minimum wage, based on preliminary information responding to the current phased-in proposal (see page 3 for a brief description of that proposal), is estimated to have a direct fiscal impact, including OPE, to public universities of \$2.15 million in the 2015-17 biennium (for the last six months) and \$16.49 million in the 2017-19 biennium. Alternative research conducted during the 2015 session estimated a total impact of \$75 million, including OPE, based on impacts from raising the minimum wage to \$15 per hour.
- Estimates for community colleges, also based on the current phased-in minimum wage proposal, could be as low as \$5.25 million in the 2017-19 biennium. Other analyses based on data from the Employment Department, indicate that an increase in the minimum wage to \$13.50 per hour could cost Community Colleges approximately \$9 million per biennium, including OPE.
- Community Colleges and Public Universities indicate that a significant portion of the increased cost would be due to an increase in wages for student workers. They point out that, in general, an increase in wages for student workers is likely to reduce other assistance the students receive, including federal aid. (This issue is further discussed under the section heading, Impacts on Program Eligibility, later in this report.) In addition, federal funds support the majority of student worker positions, and the U.S. Department of Education will not raise work study allotment dollars if Oregon raises the state minimum wage.⁶
- Similar to K-12, the costs for Community Colleges and Public Universities are likely to include a number of people, such as contract instructors, who receive a flat amount or stipend that may result in them receiving less than minimum wage for the hours they work.
- Higher education officials note that many bargaining agreements contain language that requires the “same pay for the same work,” and, therefore, wage minimums set by region are unlikely to be observed in contract negotiations.

All Other Local Government:

- Little data has been gathered on the effect of an increase in the minimum wage on local governments (excluding school districts), but based on Employment Department data, an increase in the minimum wage to \$13.50 per hour could result in costs of approximately \$50 million per biennium, including OPE.

Indirect Cost Estimates (State Government)

It is possible that costs associated with an increase in the minimum wage may result in providers of goods and services increasing their rates and prices to consumers, including state government. While these costs and any related price increases are indeterminate, this issue has been raised by a number of agencies across all program areas. It has also been noted that it is possible that a change in the minimum wage could trigger some immediate contract renegotiations. For example, a number of school districts indicated that they have contracts that include an escalation/escalator clause which is triggered if the contractors incur a significant change in operating costs. More information on indirect costs is provided below on the possible impact on the human services program area.

⁶ Federal code (USC Title 29, Chapter 8, Section 214(b)(3)) allows for student employees to be exempted from minimum wage requirements. The code provides that “The Secretary, to the extent necessary in order to prevent curtailment of opportunities for employment, shall by special certificate issued under a regulation or order provide for the employment by an institution of higher education, at a wage rate not less than 85 per centum of the otherwise applicable wage rate in effect under section 206 of this title...” This exception has been adopted by some states which have minimum wage standards that exceed federal minimum wage law.

Some human services programs and services are delivered directly by private sector employees through contracts or agreements that generally involve paying a rate to a provider for a specific level or certain type of service provided. While there may be a wage estimate used to help develop service rates, most often the wage paid to an employee is determined by the provider and not the state. This makes it difficult to evaluate the finite fiscal impact of an increased minimum wage for these workers. However, there is some information on wage trends by job sector and other data that may help identify services and lower wage workers that are most likely (or not likely) to be affected by a minimum wage increase.⁷

In order to get a general sense of magnitude of indirect costs related to health and human services, the Employment Department provided data on the number of jobs at different wage levels for the Private Sector Health Care and Social Assistance Industry. This information is at the industry level and does not indicate whether or not services are paid for with public versus private dollars.

- For the subset including health care and mental health providers, outpatient centers, and hospitals, the number of jobs at minimum wage is very low at 0.4%. Jobs at a wage level up to \$13.50 per hour total 7.7% of all jobs in this subset, but represent only about 1% of total wages paid. So, while an increase in minimum wage would have some impact on these providers, it is expected that it would be relatively small.
- In nursing facilities providing long term care, overall wages are generally higher than those in other long term care settings; more than half the jobs associated with nursing facilities have wages above \$15.00 per hour. A survey of Department of Human Services (DHS) long term care providers indicated the average wage of direct care staff in nursing facilities in 2014 was just over \$16.00 per hour.
- In other care environments (except in-home) for seniors and people with disabilities (physical, developmental, intellectual) wages are lower. In those facilities, over half the workforce is paid at less than \$13.50 per hour; this is an area where state government would likely see some pressure to increase provider rates to align with minimum wage increases. The same survey of DHS providers indicated the average wage of direct care staff providing these services in 2014 was less than \$11.00 per hour.
- Wages for in-home care services for seniors and people with disabilities (both physical and intellectual/developmental) paid through DHS are governed by collective bargaining agreements. As of January 1, 2016, the base wage for these home care and personal support workers is \$14.00 per hour with another \$0.50 increase scheduled for February 2017.
- Some child care providers serving DHS clients employ workers that could be affected by minimum wage increases. Employment Department data indicates that more than one-half of the reported wages in this sector are at less than \$13.50 per hour. A Secretary of State Audit issued in 2015 reported the average wage for child care workers in Oregon was \$11.18 per hour (in 2013).

Impacts on Program Eligibility

A higher minimum wage will potentially affect an individual's eligibility for programs that use earned income as an eligibility criterion. Because there may also be other eligibility tests – such as other sources of income, household composition, and age – it is difficult to estimate specific changes in eligibility and potential savings. Client and employer behavior may also impact hours worked and income earned. However, there are programs where impacts are most likely to be felt. Eligibility dynamics and potential outcomes related to minimum wage changes for some of those programs are highlighted below:

- Increased wages could mean fewer people would be accessing services under the Oregon Health Plan. The Oregon Health Authority (OHA) matched wage data from the Employment Department to

⁷ The Oregon Health Care Association has commissioned a study to determine the budget effects of an increase in the wages to workers providing Medicaid and other social services. The study is being conducted by Portland State University's Economic Research Center.

clients on the Oregon Health Plan and found that 60% of adults on the Health Plan did not earn any wage income, while 23%, or about 125,000, earned up to \$13.50 per hour.

However, OHA does not have the necessary data to estimate how many of these clients might actually come off the caseload with a wage increase. Currently, OHA eligibility systems do not capture adequate data on numbers of people in the family. In addition, data is not available on other sources of income besides wages. Even if this data were available, there would be other issues to consider such as individual behavior in response to the wage increase. Some clients might choose to work fewer hours in order to retain benefits. If an increase in the minimum wage were to reduce the number of jobs, the state could see additional people come onto the caseload.

- A recent review of the impacts of increased income on benefits in certain human services programs indicates that hours worked may have a stronger influence on program eligibility than wages. For example, a single adult working 18 hours per week is still eligible for a modest Supplemental Nutrition Assistance Program (SNAP) benefit when earning \$18.00 per hour; if that same adult works 30 hours per week, SNAP benefits completely phase out at \$12.00 per hour. For SNAP clients working full-time, an increase in the minimum wage would likely result in some federal funds savings if they were to exit the program. What is more likely is that a subset of SNAP recipients would see a reduced benefit due to a higher income, but this is probably a small subset. When SNAP recipients were matched up with Employment Department data, more than 65% of those recipients showed as having no hourly wages. This appears to correlate with other DHS data that shows about 65% of SNAP households are at less than 50% of the federal poverty level.

Before program changes approved during the 2015 legislative session, recipients of Temporary Assistance for Needy Families (TANF) benefits typically became ineligible if they were working 14 hours a week at minimum wage. Program changes smoothed out what was a sharp benefit cliff, keeping clients in the program longer with a gradually reduced benefit as they work more hours and/or receive a higher hourly wage. An increase in minimum wage could accelerate that pattern and move clients out of the program more quickly; any associated saving is indeterminate and could be offset by costs associated with programs potentially accessible to working families, such as Employment Related Day Care.

- Any changes in household income, relative to the federal poverty level, will mean changes to total reimbursements for school nutrition programs. It is not known if, or how many, children and families will incur a change in the percentage of federal poverty levels. Furthermore, since most of the federal funding comes in the form of a cash reimbursement for each meal served, it is not known if changes in the minimum wage will change the total number of meals served. Impacted programs may include the National School Lunch Program, School Breakfast Programs, After School Snacks and At-Risk Afterschool Meals Program, Summer Food Service Program, and the Special Milk Program.
- Increases in student and parental incomes are likely to increase the Expected Family Contribution (EFC) rate and may result in decreased financial aid awards for students in the higher education system. This may adversely impact students' ability to qualify for work-study jobs. Higher education officials also note that given that satisfactory academic progress is a condition of most financial aid awards, decreased or non-awarded financial aid may lessen, for some students, academic performance incentives which could negatively impact completion/graduation rates.
- If increases to EFC rates are observed statewide, then funds for Oregon Opportunity Grants (OOG), which are awarded on a first-come, first-served basis, may last longer before depletion. Furthermore, any minimum wage proposals based on a tiered or regional basis will likely require the development of more complicated methodologies.

- Eligibility for, or use of, other Pre-K programs, including Head Start, relief nurseries, Healthy Families Oregon, and Child Care and Development Fund Vouchers also could be impacted. The federal government distributes a number of early learning and educational related funding based on the relative income or proportion of households under the Federal Poverty Level (FPL) for Oregon compared with other states. If the changes in the minimum wage lead to increases in Oregon's relative income or decreases in households under the FPL compared to other states, Oregon could lose some federal funding for programs such as Child Care Development Block Grant, Title 1 (Education for the Disadvantaged), and some Special Education programs.

Overall Effect From Minimum Wages Increases

There are many studies on the effect of minimum wage increases on the subject economy. The findings range from large, statistically significant negative effects to small, statistically significant positive effects and many variations in between. Some of the difference in the qualitative results is due to how researchers apply a variety of methods to different data, time periods, and definitions of minimum wage.

Recent researchers have developed approaches and meta-analyses to address criticisms that have plagued the debate. One study, conducted by Allegretto, Dube, Reich, and Zipperer (2013) looked at every major state and federal minimum wage increase (over 200 in all) in the United States between 1990 and 2012. The researchers compared employment in about 400 pairs of adjacent counties located on different sides of a state border with a minimum wage difference. Comparing the employment trends of the most affected groups (teens and restaurant workers) across adjacent counties with different minimum wage levels, the study found no statistically significant effects of minimum wage increases on either employment or hours worked in restaurants and other low wage industries. Additional studies by Belman and Wolfson (2014) and Schmitt (2013) agreed with this finding.

Other research would indicate that while some workers will receive an increase in their income, others may actually lose their jobs because of the increased cost to their employers. There is also a question about whether there is a tipping point from positive to negative effects based on the amount of the minimum wage. The current common consensus seems to be that a low minimum wage might have a net positive effect while a high minimum wage may have net detrimental effects, but there does not appear to be current research on how high the minimum wage needs to be to cause the effects to become negative.

Other Issues for Consideration

- Businesses that employ low wage workers would face higher labor costs and could respond to these costs with one or a combination of ways including:
 - Reducing production hours per employee or by the total number of employees.
 - Absorbing the increased labor costs with offsets from increased worker productivity and with reductions in recruitment and retention costs.
 - Raising prices.
 - Reducing other costs such as fringe benefits.
 - Accepting lower profits.⁸
- Possible compression issues with the salaries of other employees and the potential need to increase several salary levels of staff making above the minimum wage.
- Some of the direct costs incurred by government agencies may necessitate fee increases.

⁸ Researchers note that this option is unlikely because employers of low wage workers are often in highly competitive industries with relatively low profit margins.

- If there is a reduction in employment opportunities, teenagers may be some of the most affected. Some have argued that this may lead to increased criminal activity among this segment of the population resulting in additional corrections and judicial costs.

Other research regarding potential impacts on revenues suggests the following possibilities:

- Some of the increased income would be paid as taxes.
- Increased income may result in increased spending and increased demand for goods and services may actually result in new jobs.
- Price inflation could occur, reducing the total amount of goods and services that consumers can afford to purchase.
- Some studies show that states with higher minimum wages have, on average, about the same unemployment rate as states with low minimum wages.
- Potential for businesses to close and for fewer jobs to be available overall.
- Businesses may stay open but reduce training and benefits to workers to cover the increased cost of wages.

Revenue Implications of Changing Oregon's Minimum Wage

According to the Legislative Revenue Office, changing Oregon's minimum wage does not directly affect state and local tax revenue. Revenue changes that do occur will be the result of secondary behavioral effects as the impact of the higher minimum wage works through the state's labor markets. Initially, overall wage income is expected to rise thereby generating additional income tax collections. For example, an increase in the minimum wage to \$13.50 starting in 2017 is expected to increase personal income tax collections by \$13.5 million in the 2015-17 biennium and \$44.4 million in the 2017-19 biennium. However, these gains are expected to shrink over time as employers respond with output reductions and/or labor saving investments. The uncertainty surrounding the timing and magnitude of these offsetting effects makes the net revenue implications indeterminate over the long term.