FLORIDA FINANCIAL IMPACT ESTIMATING CONFERENCE

Raising Florida's Minimum Wage

Serial Number 18-01

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FINANCIAL IMPACT STATEMENT

State and local government costs will increase to comply with the new minimum wage levels. Additional annual wage costs will be approximately $16 million in 2022, increasing to about $540 million in 2027 and thereafter. Government actions to mitigate these costs are unlikely to produce material savings. Other government costs and revenue impacts, both positive and negative, are not quantifiable.

SUMMARY OF INITIATIVE FINANCIAL INFORMATION STATEMENT

There is a direct cost associated with increasing employee wages to meet the new required minimums. Relative to the private sector, state and local governments have fewer options for addressing these costs. Nearly all of them involve some reduction in the number of affected employees or the number of hours they work. The costs remaining after governments exercise these options will result in increased expenditures on wages. The increased expenditures on wages will necessitate reductions in spending on other items in government budgets unless increased revenues are enacted.

Overall, the impact grows over time as the difference between the minimum wage under current law and under the proposed amendment increases and as more employees become affected. In the first full year of impact, increased wage costs are estimated to reach approximately $16 million. These cost increases grow to about $540 million in 2027, when the specified changes are fully implemented. The impact differs for each type of government. Of the total, school districts will face the greatest annual cost increases.

Two other areas of government costs and one revenue source will also be affected by the proposed constitutional amendment. All of them affect both state and local governments, but to varying degrees.

First, the cost of current government contracts will increase. State and local governments use private contractors to perform government services in lieu of direct service provision by government employees. The cost to the private sector of supplying these services depends in part on the price of labor. As private sector labor costs become more costly, government contract expenditures will as well. The total amount of increase is unknown, but it is likely less than the full minimum wage cost to the underlying businesses.

Second, there will be an impact to means-tested public programs, such as Medicaid. Some minimum wage workers near the upper edge of income thresholds may lose their eligibility for public assistance. Similarly, some future entrants may no longer qualify after the new minimum wage levels take effect. Offsetting these effects will be any additional participation induced by job losses or reductions in hours worked caused by the higher minimum wage. The end result is ambiguous with respect to program participation and as to whether state costs will marginally increase or decrease.

Finally, the impact on sales tax collections depends on the relative sizes of forces that move in divergent directions. Minimum wage workers will increase their purchases, and some businesses will increase prices to pass on the cost of the higher wages. Both of these effects increase sales tax revenues. However, depending on the price sensitivity of consumers, sales of products experiencing the price increases will be dampened by the higher prices, with some sales delayed and others no longer taking place. This will exert downward pressure on collections. It is probable that the net outcome on sales tax collections is positive, at least in the short run, but the magnitude is unknown and cannot be quantified.

SUBSTANTIVE ANALYSIS

A. Proposed Amendment

Ballot Title:

Raising Florida's Minimum Wage

Ballot Summary:

Raises minimum wage to $10.00 per hour effective September 30th, 2021. Each September 30th thereafter, minimum wage shall increase by $1.00 per hour until the minimum wage reaches $15.00 per hour on September 30th, 2026. From that point forward, future minimum wage increases shall revert to being adjusted annually for inflation starting September 30th, 2027.

Full Text of the Proposed Constitutional Amendment:

ARTICLE X, SECTION 24. Florida minimum wage.—
(c) MINIMUM WAGE. Employers shall pay Employees Wages no less than the Minimum Wage for all hours worked in Florida. Six months after enactment, the Minimum Wage shall be established at an hourly rate of $6.15. Effective September 30th, 2021, the existing state Minimum Wage shall increase to $10.00 per hour, and then increase each September 30th thereafter by $1.00 per hour, until the Minimum Wage reaches $15.00 per hour on September 30th, 2026. On September 30th of 2027 ~~that year~~ and on each following September 30th, the state Agency for Workforce Innovation shall calculate an adjusted Minimum Wage rate by increasing the current Minimum Wage rate by the rate of inflation during the twelve months prior to each September 1st using the consumer price index for urban wage earners and clerical workers, CPI-W, or a successor index as calculated by the United States Department of Labor. Each adjusted Minimum Wage rate calculated shall be published and take effect on the following January 1st. For tipped Employees meeting eligibility requirements for the tip credit under the FLSA, Employers may credit towards satisfaction of the Minimum Wage tips up to the amount of the allowable FLSA tip credit in 2003.

B. Effective Date

Article XI, Section 5(e), Florida Constitution, states: "Unless otherwise specifically provided for elsewhere in this constitution, if the proposed amendment or revision is approved by vote of at least sixty percent of the electors voting on the measure, it shall be effective as an amendment to or revision of the constitution of the state on the first Tuesday after the first Monday in January following the election, or on such other date as may be specified in the amendment or revision." Thus the proposed constitutional amendment will be effective on January 12, 2021; however, the amendment does not affect the state's minimum wage until September 30, 2021.

C. Input Received from Proponents and Opponents

The Conference sought input from those groups who were on record as supporting or opposing the petition initiative. The sponsor, Florida For A Fair Wage, did not provide written materials and did not attend the Florida Impact Estimating Conference (FIEC) meetings. A representative from Leon County Schools spoke at the first workshop to provide information on the proposed amendment's likely impact on the school district's budget.

In addition, the Florida Departments of Children and Families, Corrections, Education, and Management Services; the Florida Association of District School Superintendents; and the Florida League of Cities provided information at the Conference's request. Further, the Conference reviewed research, both governmental and academic articles, regarding the impact of minimum wage on state and local governments. This information can be found at: Conference Materials.

D. Background

In 2004, Floridians voted to establish a Florida minimum wage. These provisions are contained in Article X, Section 24 of the Florida Constitution. During the 2005 Legislative Session, the constitutional provisions were implemented as s. 448.110, F.S.[1] Currently s. 448.110(3) and (4)(a), F.S state:

> (3) Effective May 2, 2005, employers shall pay employees a minimum wage at an hourly rate of $6.15 for all hours worked in Florida. Only those individuals entitled to receive the federal minimum wage under the federal Fair Labor Standards Act and its implementing regulations shall be eligible to receive the state minimum wage pursuant to s. 24, Art. X of the State Constitution and this section. The provisions of ss. 213 and 214 of the federal Fair Labor Standards Act, as interpreted by applicable federal regulations and implemented by the Secretary of Labor, are incorporated herein.
>
> (4)(a) Beginning September 30, 2005, and annually on September 30 thereafter, the Department of Economic Opportunity shall calculate an adjusted state minimum wage rate by increasing the state minimum wage by the rate of inflation for the 12 months prior to September 1. In calculating the adjusted state minimum wage, the Department of Economic Opportunity shall use the Consumer Price Index for Urban Wage Earners and Clerical Workers, not seasonally adjusted, for the South Region or a successor index as calculated by the United States Department of Labor. Each adjusted state minimum wage rate shall take effect on the following January 1, with the initial adjusted minimum wage rate to take effect on January 1, 2006.

According to the U.S. Department of Labor:

> "Federal minimum wage law supersedes state minimum wage laws where the federal minimum wage is greater than the state minimum wage. In those states where the state minimum wage is greater than the federal minimum wage, the state minimum wage prevails."[2]

As such, Florida's minimum wage prevails once it exceeds the federal minimum wage as determined by the annual calculation in s. 448.110, F.S. Furthermore, Title 29, Code of Federal Regulations (CFR), Subpart A, Section 541.4, states that "Employers must comply with any Federal, State or municipal laws, regulations or ordinances establishing a higher minimum wage….than those established under the Act" [3] (also required by Title 29, Section 218, Federal Fair Labor Standard Act).

A public agency is considered an enterprise as defined in Title 29, Section 203(s)(1)(C), Federal Fair Labor Standard Act (FLSA).[4] Thus, all government agencies are generally covered under the FLSA and minimum wage standards. The U.S. Department of Labor, Wage and Hour Division has a Fact Sheet entitled "Fact Sheet #7: State and Local Governments Under the Fair Labor Standards Act (FLSA), Revised March 2011."[5] This fact sheet states under the topic of "Coverage": "Section 3(s)(1)(C) of the FLSA covers all public agency employees of a State, a political subdivision of a State, or an interstate government agency."

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[1] Section 448.110, Florida Statutes
[2] U.S. Department of Labor, Wage and Hour Division, https://www.dol.gov/whd/minwage/mw-consolidated.htm
[3] Title 29, CFR, Subpart A, Section 541.4
[4] The Fair Labor Standards Act of 1938, As Amended, U.S. Department of Labor, Wage and Hour Division, WH Publication 1318, Revised May 2011, https://www.dol.gov/whd/regs/statutes/FairLaborStandAct.pdf
[5] U.S. Department of Labor, Wage and Hour Division, https://www.dol.gov/whd/regs/compliance/whdfs7.pdf

Florida's minimum wage is adjusted for inflation each year (a proxy for changes in the cost of living) using a federal index for the South region. The Department of Economic Opportunity performs the actual statutory calculation and compares the result to the current federal minimum wage. After the higher of the two is selected, the Florida Department of Management Services adjusts the floor of all pay bands and affected workers, both salaried and hourly, to ensure that no pay band or worker is below the new minimum wage. This adjustment applies to all workers, regardless of whether the position is designated as excluded from the FLSA for overtime. Further, Title 29, Section 203(e)(2)(C), FLSA defines an employee as it relates to state government as "any individual employed by a State, political division of a State, or an interstate governmental agency…" with certain listed exceptions.

History
The table at the end of this section shows the history of Florida's minimum wage from 2005 to the present relative to the federal minimum wage. During this time period, the federal minimum wage exceeded Florida's calculated minimum wage twice (January 1, 2010 and January 1, 2011) and became the prevailing minimum wage.

Comparison to Other States
Florida is one of 29 states, plus the District of Columbia, that has a minimum wage above the current federal minimum wage of $7.25 per hour.[6] Of these areas, all but two have minimum wage rates that exceed Florida's current rate of $8.46. The exceptions are Illinois and Nevada, both at $8.25.

Minimum Wage

(January 1 of each year)

			CPI-W (South)*	
Date	Federal	Florida	Index	% Change
Jan-05	$5.15	$5.15	179.400	
Jan-06	$5.15	$6.40	186.600	4.01%
Jan-07	$5.15	$6.67	194.500	4.23%
Jan-08	$6.55	$6.79	198.063	1.83%
Jan-09	$6.55	$7.21	210.362	6.21%
Jan-10	$7.25	$7.25	205.867	-2.14%
Jan-11	$7.25	$7.25	208.740	1.40%
Jan-12	$7.25	$7.67	218.947	4.89%
Jan-13	$7.25	$7.79	222.250	1.51%
Jan-14	$7.25	$7.93	226.119	1.74%
Jan-15	$7.25	$8.05	229.594	1.54%
Jan-16 ▪	$7.25	$8.05	228.011	-0.69%
Jan-17	$7.25	$8.10	229.479	0.64%
Jan-18	$7.25	$8.25	233.691	1.84%
Jan-19	$7.25	$8.46	239.743	2.59%

▪ Florida minimum wage held constant, when CPI-W change is negative.

E. Fiscal Analysis of Proposed Amendment

Section 100.371(5)(a), F.S., requires that the Financial Impact Estimating Conference "…complete an analysis and financial impact statement to be placed on the ballot of the estimated increase or decrease in any revenues or costs to state or local governments resulting from the proposed amendment." In addition, Article XI, section 5(c), Florida Constitution, requires that the financial impact be probable.

[6] State Minimum Wages, 2019 Minimum Wage by State, National Conference of State Legislatures, 1/7/2019, http://www.ncsl.org/research/labor-and-employment/state-minimum-wage-chart.aspx

As part of determining the fiscal impact of this proposed amendment, the Conference held four public meetings:

- Public Workshop on April 1, 2019
- Principals' Workshop April 15, 2019
- Formal Conference on April 19, 2019
- Continuation of Formal Conference on April 22, 2019

In large part, this analysis was driven by historic administrative records and procedures. To forecast future effects, the FIEC relied heavily on the results of an extensive literature review. The discussion areas below center on the relationship between the minimum wage and the five major topics that were deemed most relevant: disemployment effects and other channels of adjustment; spending, pricing and sales tax collections; means-tested public programs / Medicaid; effects on non-minimum wage employees; and state contracting. The following is a synopsis of the major findings.

Disemployment Effects and Other Channels of Adjustment –

Because there continues to be some disagreement among economists, Schmitt's (2013) review of the literature on minimum wages begins with an overview of its impact on employment, both in terms of numbers and hours.

- After reviewing "the best current estimates of the impact of increases in the minimum wage on the employment prospects of low-wage workers," Schmitt summarizes with "the weight of that evidence points to little or no employment response to modest increases in the minimum wage." [7]
- Schmitt concludes his review with the following statement: "Economists have conducted hundreds of studies of the employment impact of the minimum wage. Summarizing those studies is a daunting task, but two recent meta-studies analyzing the research conducted since the early 1990s concludes that the minimum wage has little or no discernible effect on the employment prospects of low-wage workers."

Given the limited feed-through from minimum wage costs to the number of, and hours assigned to, affected employees, Schmitt's paper reviews the literature on ten other potential channels of adjustment.

- He introduces the idea as follows: "Hirsch, Kaufman, and Zelenska argue for a 'channels of adjustment' approach through which cost increases associated with the minimum wage change '...the behavior of firms, with impacts on workers, consumers, owners, and other agents.'"
- He later explains the importance of considering, not only the disemployment effects, but also these other potential channels: "In the traditional discussion of the minimum wage, economists have focused on how these costs affect employment outcomes, but employers have many other channels of adjustment. Employers can reduce hours, non-wage benefits, or training. Employers can also shift the composition toward higher skilled workers, cut pay to more highly paid workers, take action to increase worker productivity (from reorganizing production to increasing training), increase prices to consumers, or simply accept a smaller profit margin. Workers may also respond to the higher wage by working harder on the job. But, probably the most important channel of adjustment is through reductions in labor turnover, which yield significant cost savings to employers."

[7] Schmitt, John (2013). Why Does the Minimum Wage Have No Discernible Effect on Employment? Center for Economic and Policy Research. Available at https://www.takeactionminnesota.org/wp-content/uploads/2013/10/Why-Does-the-Minimum-Wage-Have-No-Discernible-Effect-on-Employment.pdf

The 11 channels of adjustment covered in Schmitt's paper are by no means exhaustive. For example, Lordan and Neumark (2018) study "the extent to which minimum wages induce substitution away from workers whose jobs are more easily automated" and also note that "firms may hire other workers who perform new tasks that are complementary with the new technology."[8]

Spending, Pricing and Sales Tax Collections –

The minimum wage may affect total sales tax revenue through its effect on prices and/or its effect on people's incomes and, therefore, spending patterns. Prices and spending patterns can also interact with each other.

- In Schmitt's (2013) overview of the literature, he references a paper by Lemos (2008) in which she reviews 30 or so academic papers on the price issue and concludes that "Despite the different methodologies, data periods, and data sources, most studies reviewed above found that a 10% US minimum wage increase raises food prices by no more than 4% and overall prices by no more than 0.4%."[9]
- MaCurdy (2015) writes that "While the precise magnitude of the responsiveness of prices to minimum wage hikes is not firmly established, the direction of the price response seems clear. Most economists and policy makers accept the view that higher minimum wages translate into higher prices for the goods and services produced either directly or intermediately by low-wage workers affected by these policies."[10]
- However, Leung (2018) shows that the minimum wage cost pass-through depends on the characteristics of the business. He finds "that the estimated pass-through elasticity decreases with the number of states the chain is in and increases for more flexible chains" and that "within-chain price rigidity attenuates the impact of an increase in local minimum wage on retail prices by 58%."[11,12]
- On the income-and-spending issue, Aaronson, Agarwal, and French (2012) find that:
    - A $1 increase in the minimum wage, leads to increases of $250 in income per quarter for households that derive income from minimum wage jobs and $700 per quarter in their spending.
    - Most of the spending increase is due to the small fraction of those households buying cars and incurring debt to do so.
    - There is no statistically significant effect on households without minimum wage workers.[13]
- Aaronson and French (2013) have a very short paper that addresses the likely combined effect of the changes in prices and household spending on total spending.[14] In this paper they:
    - Use the results from their paper with Agarwal and make many simplifying assumptions including 100% cost pass-through to prices.

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8 Lordan and Neumark (2018). People Versus Machines: The Impact of Minimum Wages on Automatable Jobs. NBER Working Paper No. 23667. Available at http://www.nber.org/papers/w23667

9 Schmitt, John (2013). Why Does the Minimum Wage Have No Discernible Effect on Employment? Center for Economic and Policy Research. Available at https://www.takeactionminnesota.org/wp-content/uploads/2013/10/Why-Does-the-Minimum-Wage-Have-No-Discernible-Effect-on-Employment.pdf

10 MaCurdy, Thomas (2015). How Effective is the Minimum Wage at Supporting the Poor? Journal of Political Economy. 123(2): 497-545.

11 Leung (2018). Minimum Wage and Real Wage Inequality: Evidence from Pass-Through to Retail Prices. Working Paper.

12 He defines price flexibility on p.17 of his paper. In short, it measures how much more correlated a store's prices are with other stores in the same state rather than with stores in other states and then averages across all the stores within the chain.

13 Aaronson, Agarwal, and French (2012). The Spending and Debt Response to Minimum Wage Hikes. The American Economic Review. 102(7): 3111-3139.

14 Aaronson and French (2013). How Does a Federal Minimum Wage Hike Affect Aggregate household Spending? The Federal Reserve Bank of Chicago, Chicago Fed Letter, August 2013, Number 313.

- Estimate that a $1.75 increase in the minimum wage would raise aggregate household spending by roughly $48 billion in the year following the minimum wage hike (0.3% of 2012 real GDP).
    - Caution that this number would be smaller if they assume a larger disemployment effect and also the number would likely be smaller in subsequent years, because households with a minimum wage worker would have a smaller marginal propensity to spend in those years, in part due to greater debt responsibilities.
    - Comment that "any additional consumer spending from a minimum wage hike arises from differences in the propensity to spend among different income groups."
- MaCurdy (2015) does a simulation in which he assumes that consumers do not reduce consumption as prices rise and all increased labor costs are passed on in higher prices. For each commodity bundle, the estimate of the total price increase also depends on the estimated price increases of its inputs. He writes "It is worth noting that although these [estimated] price increases appear small enough to justify the assumption that consumption levels do not change, most families facing these higher prices do not receive additional earnings, so the higher prices will require either a reduction in consumption in nonaffected goods or a reduction in savings."

Means-Tested Public Programs / Medicaid –

Eligibility for some public assistance programs is based on income. The effect of increasing the minimum wage on participation in these programs is theoretically ambiguous: some people may have their earnings increase due to higher wages, while others may have their earnings decrease due to losing their jobs or having their hours reduced.

- Sabia and Nguyen (2017) write that several earlier studies reach different conclusions about whether increasing the minimum wage increases or decreases participation in specific public assistance programs. The authors note that there are two studies, West and Reich (2014, 2015), that find that the participation in Supplemental Nutrition Assistance Program (SNAP) and in Medicaid decreases when the minimum wage increases.
- Sabia and Nguyen (2017) conducted their own empirical analysis and find minimum wage increases do not reduce participation in public assistance programs. They propose additional tests of the statistical models in their paper and in West and Reich's papers. They find that their model passes these tests, but West and Reich's models do not. [15]

Effects on Non-Minimum Wage Employees –

Increasing the minimum wage mechanically increases the wages of workers with hourly wages below the new minimum. In addition, there is evidence that it also has an effect on the wages of other workers.

- Neumark, Schweitzer, and Wascher (2004) find that, in the year after a minimum wage increase, the wage gains are greatest for the workers in the lowest wage bracket. Thereafter, they tend to decrease as the bounds on the wage bracket increase. The estimated wage gains become negative when they reach "1.5-2 times the minimum wage".[16]
- Autor, Manning, and Smith (2016) find the same pattern of wage gains decreasing as wages increase for workers with sufficiently low wages, but they also find that, after the effect (relative to the median wage) reaches zero, it stays there for the remainder of the wage distribution. They investigate the possibility that the ripple effects that they found are

[15] Sabia and Nguyen (2017), Do Minimum Wage Increases Really Reduce Public Assistance Receipt? Working Paper, January 2017, https://www.sole-jole.org/17713.pdf

[16] Neumark, Schweitzer, and Wascher (2004). Minimum Wage Effects throughout the Wage Distribution. The Journal of Human Resources. 39(2): 425-450.

simply the result of misreporting or mismeasuring of wages, and they are unable to reject this hypothesis.[17]

- Hirsch, Kaufman, and Zelenska (2015) use payroll data from 81 fast-food restaurants in Georgia and Alabama and interviews with their managers and find evidence that the effect of a minimum wage increase on the wages of workers not directly affected is negative. They conclude that "evidence from these restaurants clearly shows that cost increases following [minimum wage] increases were constrained by limiting pay increases for higher wage workers and thus allowing store pay distributions to become increasingly compressed."[18]

State Contracting –

State and local governments have contracts with firms that supply services. A significant part of the costs to the firms supplying these services reflects the costs of labor. To the extent the firms face higher costs from meeting the new minimum wage requirements, they will attempt to pass them on to their government clients. The degree to which they be able to do so is an open question. The literature that most clearly addresses this question focuses on living wages rather than minimum wages. Living wage laws "typically mandate a wage floor significantly above the state and federal minimum wage" and "apply to firms that do business with local governments."[19]

The three main results from the literature on how living wage laws affect contract costs are as follows.

- Different cities have had very different experiences in terms of total contract costs: Baltimore, MD saw its total contract costs increase at a rate less than the rate of inflation; Hartford, CT and Corvallis, OR saw their total contract cost substantially increase; Boston, MA and New Haven, CT saw their contract cost substantially decrease; and Multnomah County, OR saw their contract costs rise but by less than they would have risen under the old contracts.
- Even within a single city, there tends to be substantial variability in the effect on contract costs across the city's various types of contracts.
- There are certain characteristics of contracts that are associated with greater pass-throughs of labor costs: (a) contracts bid on a unit-cost basis, where firms submit a charge per hour of service rather than a total charge for the service, tend to encourage labor cost pass-through, and (b) bundling contracts tends to discourage labor cost pass-through, possibly because bidders "hold down the unit prices of some services while raising them for others in an effort to win the contract for consolidated services."[20]

Draca, Machin, and Van Reenen (2011) investigated how minimum wages affect firm profitability and write that "our findings are consistent with a simple 'no behavioral response' model where wage gains from minimum wages map into profit reductions."[21] Though not directly related to contract costs, the result supports the idea that contract costs may not increase at all, or if they do increase, it will be by less than the firm's costs.

[17] Autor, Manning, and Smith (2016). The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment. American Economic Journal: Applied Economics. 8(1): 58-99.

[18] Hirsch, Kaufman, and Zelenska (2015). Minimum Wage Channels of Adjustment, Industrial Relations, 54(2): 199-239.

[19] Brenner and Luce (2005). Living Wage Laws in Practice: The Boston, New Haven, and Hartford Experiences. Political Economy Research Institute.

[20] Ibid.

[21] Draca, Machin, and Van Reenen (2011). Minimum Wages and Firm Profitability. American Economic Journal: Applied Economics. 3(1): 129-151.

F. Discussion of Fiscal Impact of Proposed Amendment

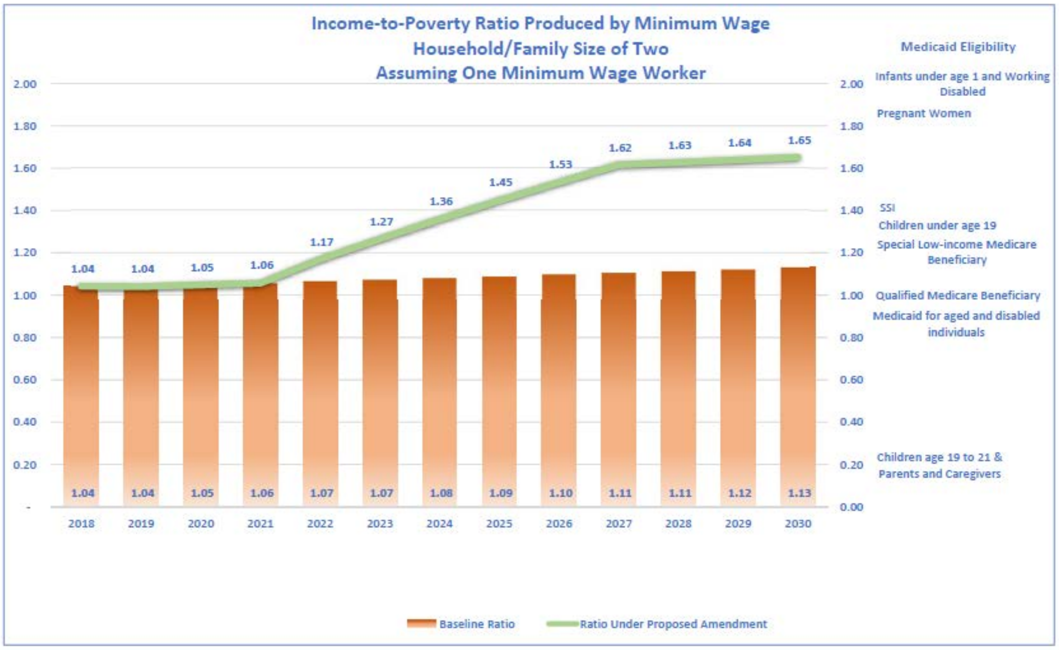
Underpinning all of the conclusions below is an assumption that the cost of the minimum wage increase will have minimal effects on the number of persons hired or hours worked in the aggregate. This precept is supported by the majority of the articles comprising the current academic literature. According to MaCurdy's discussion of the consensus view in 2015: "... the widely held view today in the economics profession maintains that relatively modest increases in the minimum wage exert negligible impacts on employment." The specific conclusions are grouped by topic area.

Sales Tax Collections

Sales Tax collections are determined by both the quantity sold and the price of the underlying goods. For the beneficiaries of a minimum wage increase (the lowest paid workers), income will go up as will spending, though the portion of such spending that is taxable is unknown. Some of the supporting literature points to the greater marginal propensity to spend among low-wage earners, the greater likelihood of expenditures on durable goods, and even the possibility of incurring debt as liquidity constraints are relaxed. As a result of the increased volume of taxable sales, sales tax collections will increase, at least in the short-run. However, the impact of any increased spending by low-wage earners has an offset. The minimum wage increase comes at a cost—at least initially—to the businesses that have minimum wage workers. While multiple channels of adjustment exist to absorb these costs, businesses in truly competitive markets have more limited options. Many of them will pass on their higher costs by increasing the prices of services and products wherever they can. This ability will be constrained by prices that are set in the national marketplace rather than locally. To the extent that the feedthrough does occur, prices will go up. All else being equal, this is another upward pressure on sales tax collections. However, depending on the price sensitivity of the product's consumers, economic theory predicts that sales of the affected products will be dampened by the higher prices, with some sales being delayed and others no longer taking place. This will exert downward pressure on collections. One study found that the various upward and downward pressures tend to be offsetting for federal minimum wage increases. For a change of more limited geographic scope, the potential increase will be somewhat moderated by the constraining influence of prices that are set nationally. It is probable that the net outcome on sales tax collections in Florida is positive, at least in the short run, but the magnitude is unknown and cannot be quantified.

Means-Tested Public Programs / Medicaid

The findings from studies looking at the effect of minimum wage increases on means-tested public program participation are inconclusive. To illustrate the effect on the most costly of the state programs, the graph below shows the differing thresholds for participation in the state's Medicaid program. However, some of the nearly four million participants will not be affected because they are eligible due to non-income factors (such as children in foster care or who receive an adoption subsidy) and others may not be in a position to work at all (some of the aged or disabled). This latter group is the most costly in Medicaid: in Fiscal Year 2017-18, elderly and disabled Medicaid recipients accounted for an estimated 17.79% of the total caseload, but 53.42% of Medicaid spending. This implies that participation changes in the remaining cohorts would have to be significant to produce detectable changes in state expenditures. Of this remaining group, individuals with incomes near the upper edge of their respective eligibility groups (that is, they are already close to the margin for participation) are more likely to be affected by minimum wage increases. All else being equal, this would produce downward pressure on program participation. Similarly, some future entrants may no longer qualify after the new minimum wage levels take effect. Offsetting these effects will be any additional participation induced by job losses or reductions in hours worked caused by the higher minimum wage, an effect potentially exacerbated during recessions. The end result is ambiguous with respect to program participation and as to whether state costs will marginally increase or decrease. The FIEC cannot reach a conclusion as to the probable outcome.



State Contracts

State and local governments use private contractors to carry out a number of government services in lieu of direct service provision by government employees. The extent to which each governmental entity does this and for which types of services can vary significantly by entity. The cost to firms of supplying these services depends in part on the price of labor. If the private sector labor costs increase, the cost to government will as well; however, some types of contracts are more conducive to a pass-through of these labor costs than others.

Contracted employees are not captured in the government payroll data used for the analysis of direct government employees presented in a later subsection. Any estimates would have to be based on the contracts themselves, but they are of limited use for this purpose. The pricing of many government contracts reflect full service provision, rather than unit costs, making it difficult to isolate the specific labor cost associated with meeting the company or provider’s contractual obligations. Even when the contract is developed on a per unit basis, the number of assumed employees per unit and their wages are seldom identified. As a result, while overall government contract costs are expected to increase, the amount is unknown and likely less in total than the full minimum wage cost to the underlying businesses.

Some examples of the varied state contracts and their respective impacts include:

- *Food services at the State University System*
    - Food services are contracted out to food service operators who are responsible for staffing. These contracts are typically for long periods of time. According to the academic literature, the food services industry is one of the major employers of minimum-wage workers, so it is likely that employees servicing these contracts will be affected by the proposed constitutional amendment. However, food services contracts appear to be structured differently from pure cost-for-service contracts. Little, if any, of the increase in cost will be passed on to government.[22]

[22] FSU signs $173M food services deal with Sodexo, Byron Dobson, The Tallahassee Democrat, 2/22/2017, https://www.tallahassee.com/story/news/2017/02/22/fsu-signs-173m-food-services-deal-sodexo/98226292/ .

- *Community Based Care and Managing Entities*
    - Salary data obtained through the Department of Children and Families for 25 entities suggest that these contracts would not experience major cost pressure in the early years of the minimum wage increase. Once the minimum wage reaches $13.00 an hour, the impact is estimated to be about $300 thousand. It is expected to escalate to $1.4 million when the minimum wage goes to $15.00 per hour.
- *State Mental Health Treatment Facilities*
    - Salary data obtained through the Department of Children and Families for five facilities suggest that these contracts would not experience major cost pressure in the early years of the minimum wage increase. Once the minimum wage reaches $13.00 an hour, the impact is estimated to be about $600 thousand. It is expected to escalate to $3.1 million when the minimum wage goes to $15.00 per hour.
- *Privatized Prisons*
    - The Department of Corrections estimated that the per diem, which these contracts are based on, would not be impacted until the last year in the series of incremental increases identified in the proposed amendment. The maximum statewide impact is estimated to be about $4.4 million in that year, impacting the overall per diem by $0.14 per prisoner.

Minimum Wage Costs
There is a direct cost associated with increasing employee wages to meet the new required minimums. Relative to private sector businesses, state and local governments have limited channels of adjustment available to them. Notably, nearly all of the channels available to government involve some limitation on the number of affected employees: service elimination, outsourcing, reassignment of duties from low wage workers to high or the collapse of services provided by multiple employees to fewer employees, and deployment of new technology or automation. The costs remaining after governments have taken these steps will result in increased expenditures on wages. The increased expenditures on wages will necessitate reductions in spending on other items in government budgets unless increased revenues are enacted.

While the amendment speaks only to the minimum wage itself, the academic literature and comments from various representatives from state and local governments indicate that there will be additional costs associated with conforming individual wage structures and payroll practices with the higher implied wages at the lower bands. At a minimum, the changes to the lower bands may necessitate additional upward adjustments to the bands immediately above minimum wage to ensure a smoothly progressing pay structure. The cost of this added “ripple” effect is indeterminate, and not included in the tables that follow, but it is likely to exist.

In the absence of the amendment, Florida’s minimum wage will continue to increase. The forecast uses a 30-year compound growth rate of the CPI-W (South). The effect of this growth rate on Florida’s minimum wage rate relative to the proposed amendment is shown in the table below.

Florida's Minimum Wage Rate

Date		Current Law*	Proposed Amendment
Jan-20		$8.67	
Jan-21		$8.88	
Jan-22	#	$9.10	$10.00
Jan-23	#	$9.32	$11.00
Jan-24	#	$9.55	$12.00
Jan-25	#	$9.78	$13.00
Jan-26	#	$10.02	$14.00
Jan-27	#	$10.26	$15.00
Jan-28		$10.51	$15.36
Jan-29		$10.77	$15.73
Jan-30		$11.03	$16.11

* Based on CPI-Urban Wage Earners and Clerical Workers (CPI-W) All Items - South Region (not seasonally adjusted), August of prior year, 30-year compound growth rate.

\# Under the proposed amendment the wage increase is effective September 30 of the prior year.

The analysis assumes that the existing employees and wage structure will remain the same throughout the forecast. Based on this assumption, the analysis incorporated data from multiple administrative data sources in addition to information provided through two surveys, one conducted by the Florida League of Cities and another by the Florida Association of District School Superintendents. These administrative data sources are shown in the following table.

Government Type	Employment and Wage Data Included and Source
State Government Employees	• People First agencies: all Executive Branch agencies, the Lottery, the Justice Administrative Commission (e.g. state attorney, public defender), the State Courts System (e.g. Judges) and the Public Service Commission. *Data Source: People First individual record level data for full-time (salaries and FTEs) and OPS employees (actual hours worked for the FY-to-date and wages), special request, from the Department of Management Services. Data provided includes Agency Code, Agency Name, Appointment ID, Appointment FTE, Pay Plan, Pay Plan Description, Class Code, Class Title, Working Title, Annual Salary, Hourly Rate-OPS, Actual Hours Worked Year-to-Date for OPS, Employee Sub Group Description.* • State Board of Administration *Data Source: Florida Has the Right to Know website, https://www.floridahasarighttoknow.myflorida.com/*.
State University System	• State University System: All reported employees of the 12 universities in the State University System. *Data Source: Individual record-level data for full-time employees by employee name (salary and FTE) and OPS employees (wages). Data for actual hours worked for OPS employees are not collected from each university and thus were not available for analysis. Florida Has the Right to Know website, https://www.floridahasarighttoknow.myflorida.com/*

Government Type	Employment and Wage Data Included and Source
Florida College System	• Florida College System: All reported employees of the 28 colleges in the Florida College System. *Data Source: Individual record-level data for full-time employees (position portion of effort and annual salary) and part-time employees (wages) obtained from Florida College System, Florida Department of Education, Florida College System Personnel Database, Reporting Year 2017-18, special request. Data provided included: Term Identifier, Florida Education Identifier (FLEID), Primary Activity/Occupational Activity Code Characteristics, Degree, Contract Status, Employment Status, Activity/Occupational Code, Position Title (Institution Title), Position Portion of Effort (FTE), Salary Type, Annual Salary, and Instructional Contact Hours.*
Local Governments (counties, cities, elected local officials' offices, independent special districts, water management districts, and the court system)	• FRS participants: All local government entities participating in the Florida Retirement System, excluding all public schools.[23] This includes 396 county agencies, 175 cities, and 272 independent special districts. *Data Source: Individual record-level data for salaried employees in the FRS system (salary and earned retirement credits) was obtained from* the *Florida Department of Management Services, Florida Retirement System.*
School Districts (K-12)	• Florida School Districts: Staff information for all of Florida's school districts from the Department of Education comprehensive automated staff information system. *Data Source: Individual record data from the system by district was obtained from the Florida Department of Education that included Year, Charter, Staff ID, Job Code and Job Title, FTE, Contract Status, Duty Days, Employment Length, Fiscal Year, and Annual Salary.*

The number of data records obtained by government type are shown in the table below:

Administrative Data Obtained by Government Type

Government Type	Number of Records	Reference Period
State Government	108,862	As of 3/31/2019
State University System	92,709	November 2018
Florida Colleges System	58,255	Academic Year 2017-18
Local Governments (Counties, Cities, and Special Districts)	201,972	Fiscal Year 2017-18
School Districts	351,009	FY 2018-19 Survey 3

A consistent methodology was utilized to analyze all administrative datasets, however the assumptions varied depending upon breadth and availability of data fields. The objective was to identify or determine both "annual hours worked" and "hourly wage" variables for each record or person in the data provided.

- "Annual hours worked" is usually "full time equivalent" ("FTE") multiplied by the appropriate estimate of hours per FTE.
- "Hourly wage" is usually "annual salary" divided by "annual hours worked".

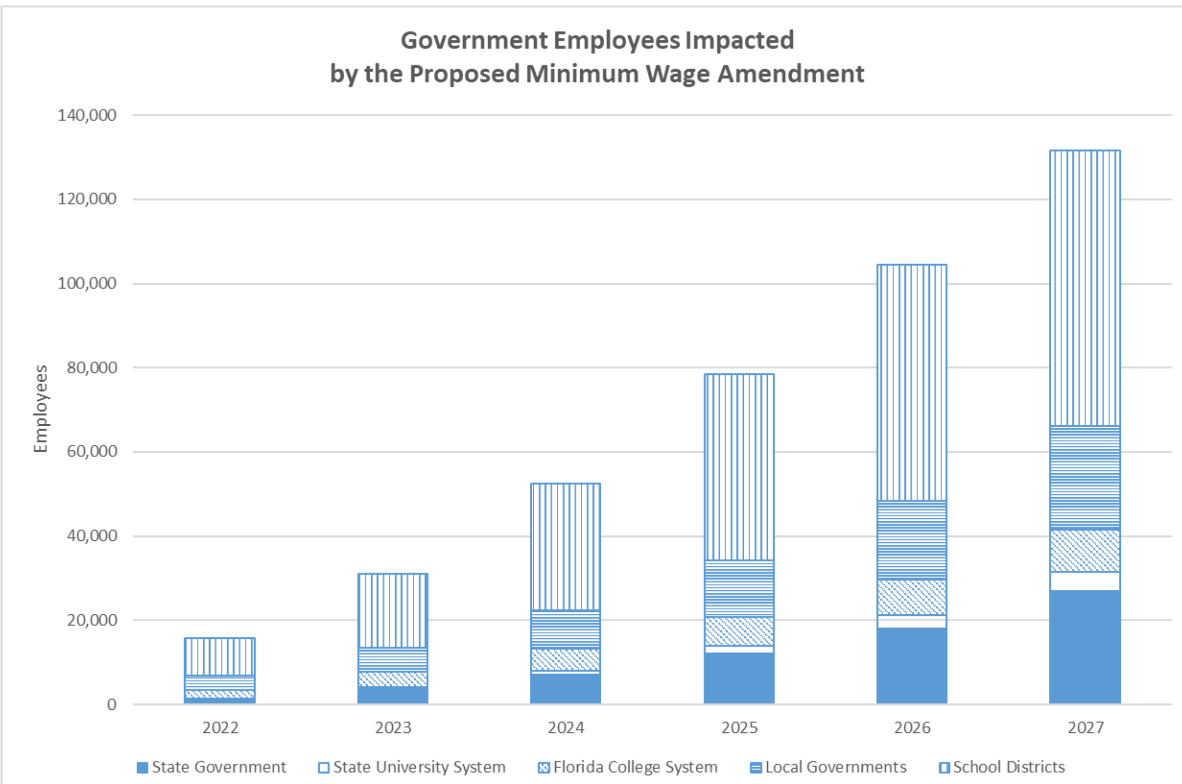
The basic steps that were undertaken and primary assumptions are listed below.

- Identify records that have hourly wages below the relevant minimum wage (i.e. the minimum wage in the earliest calendar year that the hourly wages are based on).
    - If there are very few records below minimum wage, assume those records were at the minimum wage.
    - Otherwise, drop those records.
- Assume that each worker's annual hours worked does not change over time.

[23] Florida Retirement System, List of Participating Employers, http://www.rol.frs.state.fl.us/forms/part-emp.pdf, accessed on 4/17/2019.

- For each calendar year (from 2020 to 2030), the total wage bill is calculated under two scenarios:
  - Scenario 1: The minimum wage increases as it would under current law. Each worker's hourly wage is the higher of his original hourly wage or the baseline minimum wage under current law.
  - Scenario 2: The minimum wage increases as contemplated by the proposed amendment. One simplifying assumption is that all increases to the minimum wage that would take effect on September 30, instead take effect on January 1 of the subsequent year. Each worker's hourly wage is the higher of his original hourly wage or the minimum wage under the proposed amendment.
- For each calendar year, find the difference between the total wage bill in Scenario 1 and the total wage bill in Scenario 2.

The graph below indicates the number of government employees in the analysis that would be affected by the proposed amendment by year.



The analysis resulted in varying levels of impact, the largest of which is for school districts. The impact is smallest in the early years, however it grows as the difference between the minimum wage under current law and under the proposed amendment increases and as more employees become affected. In the first full year of the impact, 2022, the effect is estimated to be $16 million. The minimum wage impact grows to about $540 million in 2027, when the minimum wage rate would be $15.00. The impact grows the fastest between 2022 and 2023 at almost 200 percent, then tapers off slowly, but remains above 50 percent between 2026 and 2027.

The outer years of 2028 through 2030 are displayed in the table below to illustrate that the higher wage bill caused by the new minimum wage rates continues to produce an impact relative to the baseline even after the $1.00 increments have been fully implemented. At that point, the wage bill grows by inflation. Several points are worth noting:

- School districts will experience the highest cost impact among the entities analyzed, representing approximately half of the total impact each year. The impact for them ranges from $8.8 million in 2022 to $267.4 million in 2027.
- Administrative data contained records for local governments that participate in the Florida Retirement System (FRS). The population of the cities, towns, and villages in FRS represented 36.9 percent of the state's municipal population. The results for cities, towns, and villages were proportionally adjusted by population to reflect the entire wage bill for all of Florida's municipalities. The estimated impact for local governments is anticipated to range from $3.8 million in 2022 to $109.1 million in 2027.
- The impact for the State University System and the Florida College System is estimated to grow from $2.3 million in 2022 to over $60 million in 2027. The Florida College system represents over 80 percent of this impact in the early years and around 70 percent in the latter two years of the 2022-2027 period.
- State government data were analyzed for both salaried and Other Professional Services (OPS) staff. The combined impact is very small in the first year, $0.8 million, but grows steadily, reaching $30 million in 2025 and just under $100 million in 2027.

Estimated Impact of Minimum Wage Increase Under the Proposed Amendment (millions)

Year	State Government (Salaried)	The Florida College System	Local Government	State Government (Other Personnel Services)	State University System	School Districts	Total
2020	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
2021	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
2022	$0.5	$1.9	$3.8	$0.3	$0.3	$8.8	$15.7
2023	$3.2	$5.5	$10.6	$1.3	$1.2	$25.0	$46.8
2024	$10.0	$11.2	$22.1	$3.1	$2.9	$57.3	$106.7
2025	$24.0	$19.3	$40.9	$6.0	$5.7	$109.9	$205.9
2026	$47.7	$29.7	$69.2	$9.6	$11.2	$181.1	$348.5
2027	$86.1	$42.3	$109.1	$13.6	$19.1	$267.4	$537.6
2028	$103.4	$46.8	$125.8	$15.2	$22.5	$299.7	$613.3
2029	$122.6	$51.6	$144.6	$16.8	$26.3	$333.7	$695.7
2030	$143.9	$56.8	$165.9	$18.4	$30.6	$369.3	$784.9

Survey of Cities and Counties by the Florida League of Cities

At the request of the FIEC, the Florida League of Cities conducted a survey to collect data on the financial impacts to city and county governments of raising the minimum wage. The survey was sent to all 412 Florida cities and the 67 counties requesting counts of salaried employees and hourly employees by wage range, as well as the estimated number of hours worked by hourly employees for the full fiscal year. Data from 121 respondents (110 cities and 11 counties) was analyzed. The respondents represent approximately 20 percent of Florida's population. Local governments typically reported those eligible for overtime and those working part-time as hourly employees, leaving those exempt from the overtime provisions of the FLSA as salaried.

The survey results indicate that under the proposed constitutional amendment, wages for 2 percent of the salaried employees of the reporting cities and 31 percent of the hourly employees will need to be increased over the first five years of implementation, with the impact increasing each year as more employees fall under the new minimum wage. The reported salaried employees were assumed to work full-time. In the reporting cities, typically, there are more than three times as many hourly employees (subject to overtime) as there are salaried employees (exempt from overtime). The salaried employees wage bill was calculated by multiplying the reported employment in each annual salary wage range by the average wage for the range. The hourly employees wage bill was calculated by multiplying the reported total hours worked for each hourly wage range by the average hourly wage in that range. Some adjustments were made to reported hours of work. The wage bill forecast was produced by applying the same methodology used for the local government employment data retrieved from the FRS. The estimated impact using the survey data is similar to the impact produced with the FRS data. The Florida League of Cities survey results suggest that the impact to cities and counties from the implementation will be $1.9 million in 2022, the first full calendar year of implementation of the minimum wage amendment. This is about half of what was estimated by using the FRS dataset that included other local governmental entities such as independent special districts. The survey approach produces a lower cost of compliance than the FRS approach in the first four calendar years of implementation. The cost projected thereafter by the survey is very similar to the cost projected using the FRS data, but ranges from 4 to 9 percent higher.

Estimated Impact of Minimum Wage Increases to Local Governments Under the Proposed Amendment
Derived from a Florida League of Cities Survey (millions)

2022	2023	2024	2025	2026	2027	2028	2029	2030
$1.9	$6.0	$16.5	$38.1	$71.9	$117.9	$136.5	$154.7	$173.3

Survey of School Districts by the Florida Association of District School Superintendents

The Florida Association of District School Superintendents (FADSS) offered to assist the FIEC by eliciting feedback from the school districts on the impact of the proposed constitutional amendment. A survey was conducted by FADSS that centered on how the proposed amendment would impact school district budgets by responding to the following questions:

- What is the impact of increasing the minimum wage in your district?
- What is the impact on any contracts that you may have (e.g., janitorial, transportation, etc.)

FADSS received responses from 30 school districts, each with a varied amount of detail and supporting documentation. Most respondents were concerned that the impacts would be greater than the cost of bringing those below the proposed minimum up to that level—in application affecting the hourly earnings of those above the minimum. Some of the districts reported that they did not foresee an impact because most or, in some instances, all employees were currently making above $10 per hour.

Many of the respondents said that increased contract costs were either not an issue or indeterminate as they were unable to calculate the cost. However, there were a number who said the proposed amendment would increase their contract costs—some said it would significantly increase their cost.

The information was analyzed in an attempt to estimate the direct increase in labor costs that the districts expect to incur. Of the 30 respondents, 18 expect an increase in labor costs in the first year totaling $16.1 million (one respondent did not provide a dollar estimate). By the last annual minimum wage increase (in September 2026—FY 2026-27), 26 respondents expect increases. For the 19 districts that reported values for FY 2026-27, combined with an estimate for five others, it was projected that the impact would be approximately $101.5 million in that year. The cumulative cost over the six-year implementation period was estimated to be $369.4 million for the responding districts. The survey respondents represent 29.6 percent of statewide Full-Time Equivalent (FTE) enrollment. Assuming that the cost per FTE is the same for those districts that did not respond as for those that did, the statewide cost in FY 2021-22 would be $54.4 million, increasing to $340.7 million in FY 2026-27, and the cumulative cost over the six-year period would be $941.6 million. These numbers are higher than the estimates previously developed as part of the statewide methodology. For this analysis, the FIEC used the statewide methodology to develop the estimates for all types of government in order to provide uniformity and broader coverage.

Other Analysis

Alternative impact estimates were produced for state government, local government, and public education using statewide data from the U.S. Bureau of Labor Statistics and Florida Department of Economic Opportunity Quarterly Census of Employment and Wages (employment counts), Occupational Employment Statistics, and Employment Projections Programs (wages and staffing patterns). The resulting impacts were in the same range as the adopted methodology but tended to be slightly lower.

Data were also analyzed from the U.S. Census Bureau's, American Community Survey, 2017, 1-year, Public Use Microdata Sample to estimate hourly wages for those respondents that indicated that they were currently working for state or local government. Overall the impact from this method was greater when compared to the analysis using administrative data detailed above.

Other Impacts

In addition to direct salary impacts, state and local governments will also experience additional costs such as the employer's share of Social Security and Medicare contributions on the differential increase in wages due to the proposed amendment. The current tax rate for social security is 6.2 percent for the employer and 6.2 percent for the employee, or 12.4 percent total. [24] The current rate for Medicare is 1.45 percent for the employer and 1.45 percent for the employee, or 2.9 percent total.[25] Combined, the projected wage impact would increase by at least 7.65 percent. There may be other expenses that are tied to salary that will also increase such as disability insurance, retirement, etc.

[24] Internal Revenue Service, https://www.irs.gov/taxtopics/tc751

[25] Ibid.