

March 23, 2015

The Honorable Marvin KleeB, Chairperson
House Committee on Taxation
Statehouse, Room 185-N
Topeka, Kansas 66612

Dear Representative KleeB:

SUBJECT: Fiscal Note for HB 2012 by Representative Ward

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2012 is respectfully submitted to your committee.

Under current law, the Kansas minimum wage is \$7.25 per hour and the minimum wage for employees that receive tips and gratuities is \$2.13 per hour. HB 2012 would raise the minimum wage to \$8.25 per hour beginning on January 1, 2016, \$9.25 per hour beginning on January 1, 2017, and \$10.25 per hour beginning on January 1, 2018. The bill would increase the minimum wage for employees that receive tips and gratuities to \$2.48 per hour on January 1, 2016, \$2.78 per hour on January 1, 2017, and \$3.08 per hour on January 1, 2018. The 2015 amendments to this statute would be known as the Kansas Working Families Pay Raise Act.

The Department of Revenue estimates that HB 2012 would increase State General Fund revenues by \$710,000 in FY 2016. The increase in revenues and how the November 10, 2014 consensus revenue estimate for FY 2016 would be affected are shown in the following table:

Effect on FY 2016 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (Nov.10, 2014)	Change in Revenue FY 2016	Proposed Adjusted CRE FY 2016
Motor Carrier	\$ 12,000	\$ --	\$ 12,000
Income Taxes:			
Individual	2,300,000	710	2,300,710
Corporate	470,000	--	470,000
Financial Institutions	39,000	--	39,000

Excise Taxes:

Retail Sales	2,270,000	--	2,270,000
Compensating Use	380,000	--	380,000
Cigarette	88,000	--	88,000
Severance	115,900	--	115,900
All Other Excise Taxes	114,100	--	114,100
Other Taxes	<u>181,600</u>	<u>--</u>	<u>181,600</u>
Total Taxes	\$5,970,600	\$ 710	\$5,971,310

Other Revenues:

Interest	\$ 8,000	\$ --	\$ 8,000
Transfers	(222,500)	--	(222,500)
Agency Earnings	<u>55,300</u>	<u>--</u>	<u>55,300</u>
Total Other Revenues	(\$ 159,200)	\$ --	(\$ 159,200)

Total Receipts	\$5,811,400	\$ 710	\$5,812,110
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The fiscal effect to state revenues during subsequent years would be as follows:

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
State General Fund	\$2,410,000	\$3,120,000	\$4,110,000	\$5,100,000

To formulate these estimates, the Department of Revenue examined 2012 salary and wage information from the Federal Bureau of Labor Statistics. The data indicates that approximately 29,000 employees are paid \$7.25 per hour which is the current state and federal minimum wage and 15,000 employees are paid \$2.13 per hour which is the current state and federal minimum wage for employees that receive tips and gratuities. Increasing the state minimum wage to \$8.25 per hour, increasing the minimum wage for employees that receive tips and gratuities to \$2.48, and assuming an average state income tax rate of 2.4 percent, the bill would increase individual income tax receipts by approximately \$1.7 million in tax year 2016. Because the tax year and fiscal year do not cover the same months, the bill is estimated to increase individual income tax receipts by \$710,000 in FY 2016 and \$2,410,000 in FY 2017. The additional income tax liability also has the potential to reduce the refundable portion of the Earned Income Tax Credit (EITC). Currently, the refundable portion of the EITC equals approximately \$65.0 million. The bill would have no fiscal effect on the operations of the Department of Revenue.

The Department of Labor indicates the bill has the potential to increase costs for unemployment insurance benefits paid out from the Employment Security Trust Fund; however, the Department is unable to estimate the amount of additional costs. The bill would have no fiscal effect on the operations of the Department of Labor.

The bill has the potential to increase costs to state agencies and private employers that currently hire workers at wage rates below the new state minimum wages proposed in the bill. For example, the Department of Administration indicates that they have 35 employees that make

The Honorable Marvin Kleeb, Chairperson

March 23, 2015

Page 3—HB 2012

at least \$7.25 per hour and below the first minimum wage increase of \$8.25 that would go into effect on January 1, 2016. The Department of Administration estimates the first minimum wage increase would cost \$21,950 that would cover the last half of FY 2016. The Department of Administration indicates that costs would increase in future fiscal years, as more employees would be covered by new minimum wage increases that would go into effect. Any fiscal effect associated with HB 2012 is not reflected in *The FY 2016 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Shawn Sullivan", with a horizontal line extending to the right.

Shawn Sullivan,
Director of the Budget

cc: Dawn Palmberg, Department of Labor
Jack Smith, Department of Revenue
Colleen Becker, Department of Administration