

LEGISLATIVE FISCAL ESTIMATE
[First Reprint]
ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 15
STATE OF NEW JERSEY
218th LEGISLATURE

DATED: FEBRUARY 21, 2019

SUMMARY

Synopsis: Raises, over time, hourly minimum wage to \$15.00.

Types of Impact: Uncertain annual impacts on State and local government revenues and expenditures.

Agencies Affected: State government.
Local units of government.

Office of Legislative Services Estimate

<u>Fiscal Impact upon Full Implementation</u>	<u>Annual</u>
Net State Revenue Effect:	Indeterminate
A) Increase from Higher Employee Incomes	Indeterminate
B) Decrease from Reductions in Employer Net Incomes and Labor Demand	Indeterminate
C) Tax Credits for Employers of Individuals with Impairments	Up to \$10,000,000
Net State Cost Effect:	Indeterminate
A) Higher Personnel and Contractor Expenses	Indeterminate
B) Change in Means-Tested Government Assistance Program Expenditures	Indeterminate
Local Cost Increase from Higher Personnel and Contractor Expenditures	Indeterminate
Net Local Revenue Effect	Indeterminate

- The Office of Legislative Services (OLS) is unable to determine the direction and magnitude of the bill’s net fiscal impact owing to uncertainty regarding the precise increase in a given year’s inflation-adjusted State minimum wage and the high degree of uncertainty surrounding the responses of economic actors to the higher State minimum wage.

- The findings of a considerable body of research on the economic effects of prior minimum wage increases across the country may be of limited guidance in analyzing the bill’s staggered State minimum wage enhancements. This is so because prior increases tended to be relatively modest in both scale and the scope of affected employees. This bill, however, raises the State minimum wage by a significantly larger amount, thereby affecting an important segment of the State workforce.
- In light of the high degree of uncertainty, the OLS fiscal estimate only identifies the often countervailing effects the bill is likely to have on State and local government revenue collections and expenditures.

BILL DESCRIPTION

The bill establishes several multiyear schedules for gradually raising the State minimum wage to not less than \$15.00 per hour. Thereafter, the rate will be adjusted for inflation.

Under current law, the State minimum wage equals \$8.85 per hour in 2019 and rises on January 1 of each subsequent year in direct proportion to the increase in the consumer price index for all urban wage earners and clerical workers (CPI-W), as calculated by the federal government. In years in which the federal government increases the federal minimum wage to a rate higher than the State minimum wage that would be in effect absent the federal increase, the State minimum wage will match the federal minimum wage and the annual CPI-W inflation adjustment will be applied to the new State minimum wage annually thereafter.

Under this bill, the general State minimum wage rises as follows:

Date	General State Minimum Wage Increase
July 1, 2019	For a State minimum wage of <u>not less than \$10.00 per hour</u> , an increase from \$8.85 per hour to the largest of: a) \$10.00 per hour, b) \$8.85 per hour multiplied by the rate of increase in the CPI-W index or c) the federal minimum wage.
January 1, 2020	For a State minimum wage of <u>not less than \$11.00 per hour</u> , an increase equal to the largest of: a) \$1.00 per hour, b) the increase in the CPI-W index multiplied by the 2019 minimum wage or c) the difference between the State minimum wage determined pursuant to the above method and any higher federal minimum wage subject to any CPI-W inflation adjustment.
January 1, 2021	For a State minimum wage of <u>not less than \$12.00 per hour</u> , an increase equal to the largest of: a) \$1.00 per hour, b) the increase in the CPI-W index multiplied by the 2020 minimum wage or c) the difference between the State minimum wage determined pursuant to the above method and any higher federal minimum wage subject to any CPI-W inflation adjustment.
January 1, 2022	For a State minimum wage of <u>not less than \$13.00 per hour</u> , an increase equal to the largest of: a) \$1.00 per hour, b) the increase in the CPI-W index multiplied by the 2021 minimum wage or c) the difference between the State minimum wage determined pursuant to the above method and any higher federal minimum wage subject to any CPI-W inflation adjustment.
January 1, 2023	For a State minimum wage of <u>not less than \$14.00 per hour</u> , an increase equal to the largest of: a) \$1.00 per hour, b) the increase in the CPI-W index multiplied by the 2022 minimum wage or c) the difference between the State minimum wage determined pursuant to the above method and any higher federal minimum wage subject to any CPI-W inflation adjustment.

January 1, 2024	For a State minimum wage of <u>not less than \$15.00 per hour</u> , an increase equal to the largest of: a) \$1.00 per hour, b) the increase in the CPI-W index multiplied by the 2023 minimum wage or c) the difference between the State minimum wage determined pursuant to the above method and any higher federal minimum wage subject to any CPI-W inflation adjustment.
January 1, 2025 and each year thereafter	For a State minimum wage of <u>not less than \$15.00 per hour</u> , an increase equal to the larger of: a) the increase in the CPI-W index multiplied by the prior year minimum wage or b) the difference between the State minimum wage determined pursuant to the above method and, if applicable, any higher federal minimum wage.

The bill provides different minimum wage schedules for employees of businesses with fewer than six employees, farm laborers, seasonal employees other than tipped workers, and employees enrolled in qualified training programs. The tables in the Fiscal Analysis detail the different schedules. Tipped workers are subject to the general schedule, but their employers may count tips received, up to amounts specified in the bill, against the hourly minimum wage.

In addition, the bill creates an 11-member Task Force on Wages and State Benefits to evaluate how changes in minimum wage levels may affect the eligibility for a variety of State services and benefits, and how the combination of changes in minimum wage and eligibility standards may impact living standards. The task force is directed to produce annual reports, including any policy recommendations to ensure that minimum wage increases and State services and benefits are coordinated so as to raise the living standards of working families. Members of the task force serve without compensation but may be reimbursed for expenses incurred in performing their duties.

The bill also provides tax credits in the aggregate amount of \$10 million per year through calendar year 2027 for employers of individuals with impairments. An employer is eligible for a corporation business tax or gross income tax credit for the cost of the increases in the wages and payroll taxes of employees with impairments caused by the bill. If an employer knowingly misrepresents an employee as having an impairment, the employer will be fined three times the amount of penalties otherwise provided in law.

Lastly, the Department of Labor and Workforce Development is to issue several reports: annual reports on the sufficiency of the \$10 million annual tax credit cap for employers of individuals with impairments; biennial reports on the award of the tax credits; a general report in 2024 on the tax credit program, including recommendations regarding its continuation; and a report in 2024 on the effects of the bill on tipped workers and their employers.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS is unable to determine the direction and magnitude of the bill’s net fiscal impact owing to uncertainty regarding the precise increase in a given year’s inflation-adjusted State minimum wage, the number of State and local employees affected by the bill, and the high degree of uncertainty surrounding the reactions of economic actors to the higher State minimum wage.

First, considering that the level of a given year’s State minimum wage depends on the rate of inflation under both the current law and the bill scenarios, inflation assumptions are crucial in

determining the bill’s increase in the State minimum wage over current law in any given year. For illustration purposes, the tables below display the difference in the annual minimum wage through 2030 under both scenarios if the annual rate of inflation were 0.0 percent, 2.0 percent (the Federal Reserve Board’s inflation target), and 5.0 percent.

State Minimum Wage per Hour under Current Law and Bill with Different Inflation Assumptions									
General Schedule*									
	0.0% Annual Inflation			2.0% Annual Inflation			5.0% Annual Inflation		
Date	Current	Bill	Difference	Current	Bill	Difference	Current	Bill	Difference
7/1/2019	\$8.85	\$10.00	\$1.15	\$8.85	\$10.00	\$1.15	\$8.85	\$10.00	\$1.15
1/1/2020	\$8.85	\$11.00	\$2.15	\$9.03	\$11.00	\$1.97	\$9.29	\$11.00	\$1.71
1/1/2021	\$8.85	\$12.00	\$3.15	\$9.21	\$12.00	\$2.79	\$9.76	\$12.00	\$2.24
1/1/2022	\$8.85	\$13.00	\$4.15	\$9.39	\$13.00	\$3.61	\$10.24	\$13.00	\$2.76
1/1/2023	\$8.85	\$14.00	\$5.15	\$9.58	\$14.00	\$4.42	\$10.76	\$14.00	\$3.24
1/1/2024	\$8.85	\$15.00	\$6.15	\$9.77	\$15.00	\$5.23	\$11.30	\$15.00	\$3.70
1/1/2025	\$8.85	\$15.00	\$6.15	\$9.97	\$15.30	\$5.33	\$11.86	\$15.75	\$3.89
1/1/2026	\$8.85	\$15.00	\$6.15	\$10.17	\$15.61	\$5.44	\$12.45	\$16.54	\$4.08
1/1/2027	\$8.85	\$15.00	\$6.15	\$10.37	\$15.92	\$5.55	\$13.08	\$17.36	\$4.28
1/1/2028	\$8.85	\$15.00	\$6.15	\$10.58	\$16.24	\$5.66	\$13.73	\$18.23	\$4.50
1/1/2029	\$8.85	\$15.00	\$6.15	\$10.79	\$16.56	\$5.77	\$14.42	\$19.14	\$4.72
1/1/2030	\$8.85	\$15.00	\$6.15	\$11.01	\$16.89	\$5.88	\$15.14	\$20.10	\$4.96
* The general schedule applies to tipped workers; however, employers may count tips received by a tipped worker, up to amounts specified in the bill, against the hourly minimum wage. The minimum hourly wage of tipped workers is currently \$2.13, not including tips.									
Small Business Employees and Seasonal Workers other than Tipped Workers									
	0.0% Annual Inflation			2.0% Annual Inflation			5.0% Annual Inflation		
Date	Current	Bill	Difference	Current	Bill	Difference	Current	Bill	Difference
7/1/2019	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00
1/1/2020	\$8.85	\$10.30	\$1.45	\$9.03	\$10.30	\$1.27	\$9.29	\$10.30	\$1.01
1/1/2021	\$8.85	\$11.10	\$2.25	\$9.21	\$11.10	\$1.89	\$9.76	\$11.10	\$1.34
1/1/2022	\$8.85	\$11.90	\$3.05	\$9.39	\$11.90	\$2.51	\$10.24	\$11.90	\$1.66
1/1/2023	\$8.85	\$12.70	\$3.85	\$9.58	\$12.70	\$3.12	\$10.76	\$12.70	\$1.94
1/1/2024	\$8.85	\$13.50	\$4.65	\$9.77	\$13.50	\$3.73	\$11.30	\$13.50	\$2.20
1/1/2025	\$8.85	\$14.30	\$5.45	\$9.97	\$14.30	\$4.33	\$11.86	\$14.30	\$2.44
1/1/2026	\$8.85	\$15.00	\$6.15	\$10.17	\$15.00	\$5.13	\$12.45	\$15.00	\$2.55
1/1/2027	\$8.85	\$15.00	\$6.15	\$10.37	\$15.62	\$5.25	\$13.08	\$16.60	\$3.52
1/1/2028	\$8.85	\$15.00	\$6.15	\$10.58	\$16.24	\$5.66	\$13.73	\$18.23	\$4.50
1/1/2029	\$8.85	\$15.00	\$6.15	\$10.79	\$16.56	\$5.77	\$14.42	\$19.14	\$4.72
1/1/2030	\$8.85	\$15.00	\$6.15	\$11.01	\$16.89	\$5.88	\$15.14	\$20.10	\$4.96

Farm Laborers									
	0.0% Annual Inflation			2.0% Annual Inflation			5.0% Annual Inflation		
Date	Current	Bill	Difference	Current	Bill	Difference	Current	Bill	Difference
7/1/2019	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00
1/1/2020	\$8.85	\$10.30	\$1.45	\$9.03	\$10.30	\$1.27	\$9.29	\$10.30	\$1.01
1/1/2021	\$8.85	\$10.30	\$1.45	\$9.21	\$10.30	\$1.09	\$9.76	\$10.30	\$0.54
1/1/2022	\$8.85	\$10.90	\$2.05	\$9.39	\$10.90	\$1.51	\$10.24	\$10.90	\$0.66
1/1/2023	\$8.85	\$11.70	\$2.85	\$9.58	\$11.70	\$2.12	\$10.76	\$11.70	\$0.94
1/1/2024	\$8.85	\$12.50	\$3.65	\$9.77	\$12.50	\$2.73	\$11.30	\$12.50	\$1.20
1/1/2025	\$8.85	\$13.40	\$4.55	\$9.97	\$13.40	\$3.43	\$11.86	\$13.40	\$1.54
1/1/2026	\$8.85	\$14.20	\$5.35	\$10.17	\$14.20	\$4.03	\$12.45	\$14.20	\$1.75
1/1/2027	\$8.85	\$15.00	\$6.15	\$10.37	\$15.00	\$4.63	\$13.08	\$15.00	\$1.92
1/1/2028	\$8.85	\$15.00	\$6.15	\$10.58	\$15.63	\$5.05	\$13.73	\$16.66	\$2.93
1/1/2029	\$8.85	\$15.00	\$6.15	\$10.79	\$16.25	\$5.46	\$14.42	\$18.35	\$3.93
1/1/2030	\$8.85	\$15.00	\$6.15	\$11.01	\$16.89	\$5.88	\$15.14	\$20.10	\$4.96
Workers in Qualified Training Programs									
	0.0% Annual Inflation			2.0% Annual Inflation			5.0% Annual Inflation		
Date	Current	Bill	Difference	Current	Bill	Difference	Current	Bill	Difference
7/1/2019	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00	\$8.85	\$8.85	\$0.00
1/1/2020	\$8.85	\$9.90	\$1.05	\$9.03	\$9.90	\$0.87	\$9.29	\$9.90	\$0.61
1/1/2021	\$8.85	\$10.80	\$1.95	\$9.21	\$10.80	\$1.59	\$9.76	\$10.80	\$1.04
1/1/2022	\$8.85	\$11.70	\$2.85	\$9.39	\$11.70	\$2.31	\$10.24	\$11.70	\$1.46
1/1/2023	\$8.85	\$12.60	\$3.75	\$9.58	\$12.60	\$3.02	\$10.76	\$12.60	\$1.84
1/1/2024	\$8.85	\$13.50	\$4.65	\$9.77	\$13.50	\$3.73	\$11.30	\$13.50	\$2.20
1/1/2025	\$8.85	\$13.50	\$4.65	\$9.97	\$13.77	\$3.80	\$11.86	\$14.18	\$2.32
1/1/2026	\$8.85	\$13.50	\$4.65	\$10.17	\$14.05	\$3.88	\$12.45	\$14.89	\$2.44
1/1/2027	\$8.85	\$13.50	\$4.65	\$10.37	\$14.33	\$3.96	\$13.08	\$15.62	\$2.54
1/1/2028	\$8.85	\$13.50	\$4.65	\$10.58	\$14.62	\$4.04	\$13.73	\$16.41	\$2.68
1/1/2029	\$8.85	\$13.50	\$4.65	\$10.79	\$14.90	\$4.11	\$14.42	\$17.23	\$2.81
1/1/2030	\$8.85	\$13.50	\$4.65	\$11.01	\$15.20	\$4.19	\$15.14	\$18.09	\$2.95

The OLS notes, however, that the minimum wages under both the bill and the current law scenarios would rise substantially if the nation re-entered a period of high inflation. Since 1992 the national inflation rate has remained below 4.0 percent in each year. But in the last 50 years four years recorded inflation rates in excess of 10.0 percent (1974, 1979, 1980, and 1981). While those years were outliers, exceptional inflation-spiking events can recur in any given year. If they do, they will significantly increase the minimum wage under both the bill and the current law scenarios, in the process throwing off any prior quantified OLS analysis of the fiscal effects of the bill’s State minimum wage increase.

Second, the findings of a considerable body of research on the economic effects of prior minimum wage increases across the country may be of limited guidance in analyzing the bill’s staggered State minimum wage enhancements to at least \$15.00 per hour as of January 1, 2024. This is so because prior increases tended to be relatively modest in both scale and the scope of affected employees. This bill, however, raises the State minimum wage by a significantly larger amount, thereby affecting an important segment of the State workforce. (The New Jersey Policy Perspective estimated in January 2019 that a \$15 per hour State minimum wage would directly raise the pay of nearly one million employees, or about a quarter of New Jersey’s workforce.) It

is the lack of a studied long-term precedent for a significant increase in the minimum wage that deprives the OLS of an empirical basis for a quantified fiscal analysis of this bill.

Given these substantial uncertainties, the OLS fiscal estimate only identifies the often countervailing effects the bill is likely to have on State and local government revenue collections and expenditures. In addition, the OLS limits its analysis to the full implementation of the higher minimum wage in 2024 and does not separately address each year's increase leading up to 2024.

State Revenues: The OLS cannot determine the net impact of a higher State minimum wage on State revenue collections but expects that the net outcome will vary depending on a given year's inflation-adjusted minimum wage level.

The OLS anticipates a State revenue gain from employees whose wages benefit from the minimum wage increase. These employees will have larger taxable incomes under the gross income tax and will pay more in payroll taxes, e.g. unemployment insurance; will qualify for a lower Earned Income Tax Credit (EITC) or cease being eligible altogether; and will increase other State revenues, such as the sales and use tax through added consumer spending.

Counteracting such gains, State revenue collections will decrease if the higher minimum wage causes employers to: (1) reduce their consumption of labor by eliminating positions or cutting hours, thereby lowering affected employees' incomes, gross income, and payroll tax liabilities, and purchases of taxable goods and services, and potentially increasing their EITC claims; (2) absorb a decrease in employers' net income, thereby lowering their gross income tax and corporation business tax liabilities and their potential to invest in their businesses; and (3) increase the prices of goods and services, thereby increasing sales and use tax collections on higher-priced taxable goods and services but also reducing demand for taxable goods and services and, in turn, sales and use tax collections.

The magnitude of each individual impact and the extent to which the different impacts may offset one another, however, remain highly uncertain considering the lack of a studied long-term precedent for a minimum wage increase of the size provided by the bill.

The OLS notes that in addition to the general effects of higher minimum wage rates on State revenue, the bill will result in an annual State revenue loss of up to \$10 million through 2027 attributable to the establishment of tax credits to employers of individuals with impairments. The amount represents the cap on annual tax credit awards that is specified in the legislation.

Gross Income Tax (GIT): Tax data on the number of taxpayers who may be impacted by this bill, their income levels, and their State tax liabilities, are not available. The GIT revenues would increase to the extent that: (a) certain taxpayers who report income above the current minimum statutory filing thresholds would have annual income increased; or (b) certain other taxpayers who report income below the statutory minimum filing thresholds would have their income boosted above the thresholds. Most taxpayers become liable for New Jersey GIT when their gross income exceeds \$20,000, but for a single filer or a married spouse filing a separate return, the threshold is \$10,000. A taxpayer with income below the applicable minimum filing threshold does not owe tax.

For a taxpayer in the first group (a), the marginal tax rate of 1.75 percent may be applied to much of the additional taxable income under this bill, or \$17.50 per each \$1,000 of additional taxable income. However, if a taxpayer is married filing a joint return and has a spouse who also reports taxable income, higher marginal tax rates may apply. Two examples illustrate this point.

- A taxpayer who is paid an hourly wage of \$8.85 and works 35 hours each week during the year would have an annual gross income of approximately \$16,100. Assuming this taxpayer is a single filer who can only claim the personal exemption of \$1,000, the taxpayer's GIT liability would approximate \$211 based on taxable income of \$15,100. If that taxpayer's hourly wage is increased to \$15.00, the taxpayer's annual gross income

would grow to \$27,300, resulting in a \$390 tax liability, a \$179 difference. For every 10,000 taxpayers who meet these criteria, the State would realize a recurring GIT revenue increase of \$1,790,000.

- A taxpayer who files a joint return based on two providers receiving an hourly wage of \$8.85 and working 35 hours each week during the year would have an annual gross income of approximately \$32,200. Assuming this taxpayer claims two personal exemptions of \$1,000 each, a \$1,500 deduction for a dependent child, and a property tax deduction of \$4,000, the taxpayer's GIT liability would approximate \$362 based on taxable income of \$24,700. If the hourly wage is increased to \$15.00, the taxpayer's annual gross income would increase to roughly \$54,600, resulting in a \$754 tax liability, a \$392 difference. For every 10,000 taxpayers who meet these criteria, the State would realize a recurring gross income tax revenue increase of \$3,920,000.

For a taxpayer in the second group (b), the marginal tax rate of 1.75 percent would be applied to all the additional taxable income above the statutory \$20,000 income level, or \$17.50 per each \$1,000 of such additional taxable income. Also, this taxpayer would pay 1.4 percent tax on all income below the \$20,000 level, or \$280. Two additional examples help illustrate this point.

- A single taxpayer without children working 52 weeks per year part-time at 20 hours per week at the current minimum wage of \$8.85 per hour, earns \$9,204 per year, below the \$10,000 minimum filing threshold. This taxpayer would owe \$0 in GIT. However, at a minimum wage of \$15.00 per hour, that taxpayer's income would rise to \$15,600 per year, above the \$10,000 minimum filing threshold, with a tax liability of \$204. The tax increase from the higher minimum wage would equal \$204 per year.
- Married taxpayers with three dependent children and only one working adult, who works 52 weeks per year at 35 hours per week at the current minimum wage of \$8.85 per hour, earn \$16,107 per year, below the \$20,000 minimum filing threshold. These taxpayers would owe \$0 in GIT. At a minimum wage of \$15.00 per hour, these taxpayers' income would rise to \$27,300 per year, with a tax of \$294. The tax increase from the higher minimum wage would equal \$294 per year.

According to a report from the New Jersey Policy Perspective, potentially 975,000 New Jersey employees may see increased wages under a hypothetical \$15 minimum wage, of which 61 percent are reportedly full-time workers and about half are unmarried. However, the OLS does not have data identifying the State tax status or State tax liability of these employees. It is unknown how many file joint returns, single or separate returns, or how many currently do or do not pay State GIT. For purposes of illustration, for each 100,000 employees who see an annual wage increase of \$10,000, assuming a marginal tax rate of 1.75 percent, the additional State GIT revenue gain would equal \$17.5 million.

The OLS further observes that the higher minimum wage may result in some job losses to the extent that some employees are priced out of the market. For purposes of illustration, in the example above for a single full-time employee earning \$16,100 per year at the current minimum wage, the GIT is \$211. For every 1,000 such employees who lose a job due to the increased minimum wage, the State would see a \$211,000 GIT revenue reduction. A married joint filer with two full-time incomes, who loses one current minimum wage income of \$16,100, taxed at the 1.75 percent marginal rate, would see a \$282 GIT reduction. The loss of 1,000 such employees would yield a \$282,000 GIT revenue reduction. Any part-time employees who currently fall below the minimum filing threshold and owe no State tax, would have no impact on the GIT if the job were lost. Lastly, some taxpayers may also see reduced hours of employment due to the higher minimum wage, resulting in some additional State revenue losses. The number of such potential lost jobs and the total possible State tax revenue loss are unknown.

Earned Income Tax Credit (EITC): When fully implemented, the bill may significantly reduce the cost of the State EITC program, which provides \$480 million in estimated benefits to over 500,000 claimants in FY 2019. The EITC is a refundable tax credit for working people with low to moderate incomes that is administered through the GIT. Accordingly, any reduction in EITC benefits will increase GIT collections; however, the OLS is unable to estimate the potential annual fiscal impact of the legislation on the EITC program. To provide context in regard to the varying ranges of magnitude a minimum wage increase may have on a taxpayer's EITC, examples are provided below. For purposes of illustration, these examples assume increased wages while holding all other factors, such as hours and weeks worked, equal, and they do not account for any additional deduction or credit to which the taxpayer might be entitled.

- Under the current State EITC program, a single taxpayer with two dependent children working 52 weeks per year at 40 hours per week at the current minimum wage of \$8.85 per hour, earning \$18,408 per year, would receive an EITC of \$2,229 in 2019. Upon full implementation of the increased minimum wage to \$15.00 per hour in 2024, this same taxpayer, earning \$31,200 per year, could expect to receive an EITC of approximately \$1,232, nearly half of the current benefit amount.
- Married taxpayers with three dependent children and only one working adult, who works 52 weeks per year at 40 hours per week at the current minimum wage of \$8.85 per hour, earning \$18,408 per year, would receive an EITC of \$2,508 in 2019. At a minimum wage of \$15.00 per hour in 2024, these taxpayers, earning \$31,200, could expect to receive an EITC of \$1,997, roughly 20 percent less than the current benefit amount.
- Married taxpayers with three dependent children, each adult working 52 weeks per year and 40 hours per week at the current minimum wage of \$8.85 per hour, earn a combined income of \$36,816 per year, resulting in the receipt of an EITC of \$1,485 in 2019. Following the full implementation of a \$15.00 per hour minimum wage in 2024, these taxpayers, earning a combined income of \$62,400, would no longer be eligible for an EITC because the taxpayers' combined income would likely exceed the program's future income eligibility limit, which is \$54,884 in 2019.

All things being equal, and absent any changes in employment status or hours worked, the greatest reduction in EITC benefits would be to taxpayers who are single and have dependent children. In contrast, a married taxpayer with only one minimum wage earner, who works 52 weeks per year at 40 hours per week at the current minimum wage of \$8.85 per hour and continues to make minimum wage throughout the implementation of the legislation, would receive the least reduced EITC. Lastly, any increase in the minimum wage which causes a taxpayer's total income to surpass the program's income eligibility, which is currently \$54,884, would result in that taxpayer no longer receiving an EITC. Thus, when fully implemented, this legislation may significantly lower the cost of the State EITC program which will be reflected in increased GIT revenues.

State Expenditures: The bill potentially affects annually recurring State government expenditures in four areas: A) means-tested government assistance programs; B) purchases of contracted goods and services; C) employee compensation, including the cost of employee benefits; and D) Department of Labor and Workforce Development administrative expenditures associated with the establishment of the Task Force on Wages and State Benefits and the production of the several required reports. The magnitude of each individual potential impact and the extent to which the different impacts may offset one another, however, remain highly uncertain considering the lack of precedent for a minimum wage increase of the size advanced by the bill. It is also conceivable that these effects may differ from the short-term to the long-

term, as employers may delay or accelerate the implementation of operational changes in reaction to the annual State minimum wage increases.

A) Means-Tested Government Assistance Programs: Depending on employer responses to the higher State minimum wage, the outlay of State government for means-tested assistance programs, such as NJ FamilyCare and Work First New Jersey, could fall or rise. Individuals whose income rises as a result of the higher minimum wage will, depending on the eligibility criteria of a specific program, either cease being eligible for benefits or qualify for reduced benefits. Offsetting the State cost savings from the reduced reliance on means-tested assistance programs by individuals with higher incomes, the State may see an increase in program participation from individuals who cannot secure employment because of any reduction in the supply of jobs and work hours attributable to the minimum wage increase. The OLS, however, has no information on which it could base an estimate of the countervailing cost effects on means-tested assistance programs, and to what extent the two effects may offset one another.

B) Purchases of Contracted Goods and Services: The bill will likely increase State government spending on purchases of contracted goods and services, as the cost of some goods and services can be expected to rise. But the OLS cannot determine the scale of any spending increase, given that the OLS has no information on the extent to which: a) contractors will increase their prices in reaction to the higher minimum wage; b) the State will alter the quantities and types of goods and services it will procure; and c) the State will substitute goods and services currently sourced from in-state vendors with less expensive goods and services procured from out-of-state vendors that are not subject to New Jersey's minimum wage.

The Departments of Children and Families, Health, and Human Services, for example, expend significant amounts on services provided to their clients by community providers. The workforce providing these services frequently earns less than \$15 per hour. In its FY 2016-2017 discussion points, the OLS asked all three departments about the impact of a \$15 minimum wage on service procurement costs. All three departments could not specify the fiscal impact of the higher minimum wage on their third-party contractors, and, by extension, on the departments' operating expenses. The departments, however, stated identically that: "It is likely, however, that this level of minimum wage would result in significant increases." In addition, the Department of Children and Families reported that it had more than 800 separate contracts and the Department of Health that it had more than 500 separate contracts.

C) Employee Compensation: The OLS estimates that the bill will increase State government expenditures for employee salaries, wages, and benefits. The OLS is unable to quantify the impact because of an absence of information on the number of State employees whose hourly wage rate falls below \$15.00.

In addition, in its FY 2016-2017 discussion points, the OLS asked the New Jersey public institutions of higher education about the estimated impact on their operations of a \$15 per hour minimum wage. Most public colleges and universities shared concrete numbers with the OLS. Although only a relatively small number of seasonal, part-time, and full-time employees made under \$15 per hour at some public colleges and universities, four colleges and universities reported that over 1,000 student-employees would be affected by a \$15 per hour minimum wage (William Paterson University, 1,200 affected student-employees; New Jersey Institute of Technology, 1,239; Rowan University, 1,611; and The College of New Jersey, 1,850). The annual cost impact of the minimum wage ranged from an estimated \$25,000 at Thomas Edison State University to \$4.3 million at William Paterson University. While some respondents would attempt not to decrease student work-hours in response to a \$15.00 per hour minimum wage, others stated that they would likely do so.

D) Department of Labor and Workforce Development Expenditures: The bill may increase the annual operating expenses of the Department of Labor and Workforce Development as the new Task Force on Wages and State Benefits will be housed in but not of the department and as the department will have to prepare and issue several reports required by the bill. The extent to

which the increased responsibilities will add to the department's annual expenditures will depend on the operational decisions the department will make in response thereto. The OLS, however, is reluctant to predict the department's operational responses to the bill.

Local Expenditures: The bill will increase annual local government expenditures in two areas: A) purchases of contracted goods and services; and B) employee compensation, including the cost of employee benefits. The magnitude of each potential increase, however, remains highly uncertain considering the lack of a studied, long-term precedent for a minimum wage increase of the size advanced by the bill. It is also conceivable that these effects may differ from the short-term to the long-term, as employers may accelerate or decelerate the implementation of operational changes in reaction to the annual minimum wage increases.

A) Purchases of Contracted Goods and Services: The bill will likely increase annual school district, county, and municipal government spending on purchases of contracted goods and services, as the cost of some contracted goods and services can be expected to rise. But the OLS cannot determine the scale of any spending increase, given that the OLS has no information on the extent to which: a) contractors will increase their prices in response to the higher minimum wage; b) local government units will alter the quantities and types of goods and services they will purchase; and c) local government units will substitute goods and services currently sourced from in-state vendors with less expensive goods and services procured from out-of-state vendors that are not subject to New Jersey's minimum wage.

B) Employee Compensation: The OLS estimates that the bill will result in an indeterminate increase in annual expenditures by local governmental units for employee salaries, wages, and benefits. The OLS cannot quantify the impact because it does not have access to data on municipal, county, and school district employees who currently make less than \$15.00 per hour.

However, the OLS estimates based on data from the Bureau of Labor Statistics in the United States Department of Labor that augmenting the minimum wage to \$15.00 per hour would increase school districts' annual wage and FICA tax costs by \$164.4 million. School districts may respond to the added cost by cutting their use of labor, reducing non-labor expenses or increasing property taxes or other revenues.

Local Revenues: The bill may potentially alter local government revenues if it were to change a community's income and wealth. The OLS has no indication as to the direction or magnitude of any change in property tax collections or other local government revenues attributable to the higher minimum wage. Residents whose incomes rise as a result of the enhanced minimum wage would drive any increase in local government revenues. Residents whose incomes decline because of the higher minimum wage, either through lower net income if they are business owners or through job losses or reductions in work hours if they are employees, and residents whose purchasing power might decrease as a result of any increase in the prices of goods and services attributable to the higher minimum wage would account for any decrease in local government revenues.

Section: Commerce, Labor and Industry

Analysts: Juan C. Rodriguez
Associate Fiscal Analyst

Thomas Koenig
Assistant Legislative Budget and Finance Officer

Approved: Frank W. Haines III
Legislative Budget and Finance Officer

This fiscal estimate has been prepared pursuant to P.L.1980, c.67 (C.52:13B-6 et seq.).