Fiscal Impact Statement for Initiative 1433

Summary
Initiative 1433 would increase state revenues, and state and local government expenditures, during the next six fiscal years. State revenues would increase due to employers making Unemployment Insurance Trust Fund tax payments on higher wages. State General Fund expenditures would decrease in the first four fiscal years, but increase in the fifth and sixth fiscal years. Expenditures from all other funds would increase in each fiscal year. Increases exceed any decreases in State General Fund spending resulting from the initiative. Local school district expenditures would increase. Other local government expenditure impacts cannot be estimated.

General Assumptions

- The initiative's effective date is January 1, 2017. However, the paid sick leave requirement becomes effective on January 1, 2018.
- Unless otherwise noted, estimates use the state's fiscal year of July 1 through June 30. For example, fiscal year (FY) 2018 is July 1, 2017, through June 30, 2018.
- Federal funds reported in this statement are only those that are included in the state budget.
- A calendar year (CY) is January 1 through December 31.
- A school year is September 1 through June 30.
- One full-time equivalent (FTE) employee equates to 2,080 hours of work for one calendar year.
- Three cities have enacted a higher minimum wage ordinance than is reflected in Initiative 1433 (I-1433). This fiscal impact statement does not address impacts of those ordinances.
- The cost of increases in the minimum wage is calculated based on the minimum wage rates set in I-1433, less the projected cost of increases in the current state minimum wage law. The Office of Financial Management projection of the minimum wage under current law is shown below, together with the required and projected amounts under I-1433.

Date	Projected Hourly Rate Under Current Law	Hourly Rate Under I-1433
January 1, 2017	$9.55	$11.00
January 1, 2018	$9.77	$11.50
January 1, 2019	$10.02	$12.00
January 1, 2020	$10.28	$13.50
January 1, 2021	$10.56	$13.86
January 1, 2022	$10.83	$14.23

- The inflation projection for FY 2021 is assumed at 2.7 percent and for FY 2022 is assumed at 2.6 percent.

State Revenue Assumptions
The Employment Security Department (ESD) collects taxes from employers for the Unemployment Insurance (UI) Trust Fund.

State Revenue

Increasing the minimum wage expands the taxable wage base for many employers. This makes more wages subject to the UI Trust Fund tax. Table 1 provides fiscal year estimates of additional UI Trust Fund tax collections.

Table 1 – Tax collections deposited in the Unemployment Insurance Trust Fund

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$500,000	$2,500,000	$6,500,000	$14,000,000	$25,400,000	$35,100,000

State Expenditure Assumptions

- No expenditure impact is assumed for agency employees covered under a current collective bargaining agreement that provides wages and benefits that exceed the initiative requirements.
- State agencies and local governments purchase goods and services through vendor contracts managed by the Department of Enterprise Services. If higher costs resulting from the initiative are passed onto the state, vendors would likely increase the cost of purchasing goods and services, but the amount of the increase cannot be estimated.
- Expenditures from the State General Fund may be used for any government purpose such as education; social, health and environmental services; and other general government activities.

State Expenditures

I-1433 affects multiple state agencies and institutions of higher education. Impacts by agency for the minimum wage increase and paid sick leave requirements are summarized in Table 2. Additional detail and assumptions for each agency's estimated expenditures are explained under each agency heading.

Table 2 – Summary of state agency and institutions of higher education estimated expenditures

Account	Agency	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
General Fund-State	Department of Social and Health Services	($394,150)	($524,545)	($640,581)	$1,463,263	$6,003,012	$11,799,679
	Health Care Authority	($5,484,000)	($6,446,000)	($6,812,000)	($9,548,000)	($9,636,000)	($9,730,000)
	Higher education	$745,000	$1,766,000	$2,246,000	$3,827,000	$4,871,000	$5,225,000
	State employee compensation (excluding higher education)	$3,630	$5,536	$13,991	$24,344	$25,001	$25,651
	Total State General Fund	**($5,129,520)**	**($5,199,009)**	**($5,192,590)**	**($4,233,393)**	**$1,263,013**	**$7,320,330**
All Other Funds	Department of Labor and Industries	$0	$2,823,500	$1,598,000	$1,499,000	$1,499,000	$1,499,000
	Health Care Authority	$1,756,000	($1,799,000)	($2,467,000)	($8,487,000)	($8,660,000)	($8,765,000)
	Department of Social and Health Services	$0	$0	$0	$3,271,000	$9,179,000	$16,407,000
	Employment Security Department	$6,600,000	$22,000,000	$41,200,000	$63,700,000	$86,700,000	$111,800,000
	Higher education	$1,111,000	$3,137,000	$4,115,000	$6,785,000	$8,530,000	$9,164,000
	State employee compensation (excluding higher education)	$0	$15	$105,793	$111,510	$114,521	$117,498
	Total other funds	**$9,467,000**	**$26,161,515**	**$44,551,793**	**$66,879,510**	**$97,362,521**	**$130,222,498**
	Total all funds	**$4,337,480**	**$20,962,506**	**$39,359,203**	**$62,646,117**	**$98,625,534**	**$137,542,828**

Department of Labor and Industries
The Department of Labor and Industries (L&I) is required to adopt and implement rules to carry out and enforce I-1433. L&I will need an estimated 17.8 FTEs for such activities as investigating complaints for minimum wage and sick leave violations, as well as for retaliation and discrimination claims; conducting outreach and communication of new requirements to employers; programming information technology; and rule making.

Table 3 provides estimated FTEs and expenditures for L&I implementation costs.

Table 3 – Department of Labor and Industries implementation costs

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
FTEs	none	17.8	15.3	14.2	14.2	14.2
Other Funds Costs	$0	$2,823,500	$1,598,000	$1,499,000	$1,499,000	$1,499,000

Department of Social and Health Services
I-1433 impacts multiple programs at the Department of Social and Health Services (DSHS). Impacts are displayed by program. To administer and operate these programs, state expenditures are often matched with federal dollars so both state and federal expenditure impacts are displayed, where applicable. For purposes of the fiscal impact statement, only state expenditure impacts are considered in the totals in Table 2 and in the fiscal impact summary in Table 4.

The department contracts with a number of vendors who provide services to children for child care and behavioral rehabilitation; to individuals in nursing homes requiring care; to individuals who need long-term care; and to adults requiring assistance with personal care at home, among others. These include vendors who provide direct care to clients living in the community in a variety of settings. Many vendor contracts are paid on a performance-based deliverable basis or on an agreed-upon rate for a unit of service.

Table 4 summarizes impacts of I-1433 across all DSHS programs.

Table 4 – Aggregate expenditure impacts on the Department of Social and Health Services

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State costs	($394,150)	($524,545)	($640,581)	$1,463,263	$6,003,012	$11,799,679
Other costs	$0	$0	$0	3,271,000	9,179,000	16,407,000
Total	**($394,150)**	**($524,545)**	**($640,581)**	**$4,734,263**	**$15,182,012**	**$28,206,679**

Economic Services Administration (DSHS)
I-1433 would result in fiscal impact to the Basic Food program and the Temporary Assistance for Needy Families (TANF) program. The Basic Food program (formerly known as food stamps) provides low-income individuals and families with food benefits. Approximately 2 percent of the Basic Food program funding is State General Fund, while the remaining 98 percent is federal funds. The TANF program provides temporary cash assistance for low-income families. Approximately 50 percent of the TANF program funding is State General Fund.

When an individual's or family's income increases, the benefit amounts may be reduced, applications for benefits may be denied and/or current recipients may be terminated from the program. Caseload impacts and cost savings are estimated using actual caseload counts and wage income data from December 2015. Tables 5 and 6 summarize the impacts of I-1433 by program.

Table 5 – Basic Food program state fund expenditure impacts by caseload

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Denials/Terminations	558	835	1,847	3,870	3,870	3,870
Benefit Reductions	32,029	37,728	40,248	46,894	46,894	46,894
TOTAL	(170,585)	(232,143)	(292,688)	(525,638)	(577,435)	(585,286)

Table 6 – TANF program expenditure impacts by caseload

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Denials/terminations (number of cases)	23	37	48	97	97	96
Benefit reductions (number of cases)	498	545	575	628	625	622
Total costs	($233,565)	($292,402)	($347,893)	($574,099)	($761,553)	($738,035)

Developmental Disabilities Administration and Aging and Long-Term Care Administration (DSHS)

The Home and Community Services division in the Long-Term Care Administration develops and pays for long-term care services for persons with disabilities and the elderly, with priority given to low-income individuals and families. Under the 2015–17 collective bargaining agreement with Service Employees International Union Healthcare 775NW, wages range from $12.00/hour to $15.65/hour for services from a contracted individual provider for children and adults assessed by DSHS and found eligible for Medicaid personal care. With respect to the wage differences provided in the initiative, the current collective bargaining agreement for SEIU Healthcare 775NW already meets or exceeds the amount required through 2019, as well as for Medicaid contracted home care agencies. Thus, there would be no fiscal impact for individual providers from FY 2017 through FY 2019.

Table 7 displays projected impacts after FY 2019 for individual providers.

Table 7 – Individual provider expenditure impacts

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State costs	$0	$0	$0	$2,563,000	$7,342,000	$13,123,000
Federal costs	$0	$0	$0	$3,271,000	$9,179,000	$16,407,000
Total	**$0**	**$0**	**$0**	**$5,834,000**	**$16,521,000**	**$29,530,000**

Health Care Authority

I-1433 affects multiple Health Care Authority (HCA) programs. Table 8 provides a summary of all expected program impacts. These impacts are due to fewer people being eligible for benefits. Each program is explained in further detail that follows.

Table 8 – HCA estimated impacts to all Health Care Authority programs

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State costs	(5,484,000)	(6,446,000)	(6,812,000)	(9,548,000)	(9,636,000)	(9,730,000)
Federal costs	1,756,000	(1,799,000)	(2,467,000)	(8,487,000)	(8,660,000)	(8,765,000)
Total	**(3,728,000)**	**(8,245,000)**	**(9,279,000)**	**(18,035,000)**	**(18,296,000)**	**(18,495,000)**

HCA estimated the total impact to the affected Medicaid populations using the budgeted state fiscal year per-capita rate multiplied by the affected population change for each fiscal year. Per-capita rates are calculated twice a year. It is likely this estimate will change with adjustments to the Medicaid forecasted per-capita rates. Additionally, the FY 2017 per-capita rate does not assume any changes in caseload mix, inflation or other factors. Table 9 displays the HCA estimated impacts on all Medicaid programs. These impacts are due to fewer people being eligible for benefits. (Table 9 is a subset of Table 8.)

Table 9 – Total estimated impacts to Medicaid programs

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
State costs	(2,742,000)	(3,223,000)	(3,406,000)	(4,774,000)	(4,818,000)	(4,865,000)
Federal costs	1,756,000	(1,799,000)	(2,467,000)	(8,487,000)	(8,660,000)	(8,765,000)
Total	**(986,000)**	**(5,022,000)**	**(5,873,000)**	**(13,261,000)**	**(13,478,000)**	**(13,630,000)**

Family Medical Adults (HCA)
This program provides health care to adult caretakers with a modified adjusted gross income (MAGI) eligibility threshold of 54 percent of the federal poverty level (FPL). Increasing the state minimum wage may cause some clients now covered by this program to lose eligibility and then become eligible for the Newly Eligible Adult Group. Increasing the state minimum wage may also cause current clients to exceed the income eligibility limits and thus become eligible for non-Apple Health coverage through the Health Benefit Exchange. This would likely result in savings for the HCA. However, the full impacts will not be realized until 2019, when the minimum wage reaches $12.00 per hour. Any changes in the FPL and eligibility requirements could change the impact to HCA and the Medicaid program. Table 10 displays the impacts of the minimum wage on Family Medical expenditures.

Table 10 – Categorically needy Family Medical caseload and state cost impacts

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Caseload impact (number of cases)	(15,205)	(16,916)	(17,673)	(18,699)	(18,794)	(18,890)
State costs	($2,522,000)	($2,806,000)	($2,932,000)	($3,102,000)	($3,118,000)	($3,134,000)

Newly Eligible Adult Group (HCA)
This program provides health care to adults under the Affordable Care Act with income up to 138 percent of the FPL. Services for this population are largely federally funded, and any changes in population size will have a limited effect on state funds due to the small change in the federal match rate. The federal match is anticipated to change incrementally starting in 2017 until it reaches 90 percent in 2020. Any changes in the FPL and eligibility requirements could change the impact to the HCA and the Medicaid program. Table 11 shows the impact of the minimum wage increase on the Newly Eligible Adult population.

Table 11 – Newly Eligible Adult caseload and state cost impacts

	FY 2017	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Caseload impact (number of cases)	12,862	3,698	2,180	(15,013)	(15,255)	(15,500)
State costs	$235,000	$81,000	$56,000	($549,000)	($557,000)	($566,000)

Various Children's Programs (HCA)
Children become ineligible for Medicaid above 312 percent FPL under MAGI limits. Families at that income range are less likely to be affected by a change in the minimum wage until 2020, when the wage reaches $13.50 per hour. Table 12 shows the impact of the minimum wage increase on children's programs.

Table 12 – Children's programs caseload and state cost impacts

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Caseload impact (number of cases)	(3,485)	(3,800)	(4,027)	(8,842)	(9,010)	(9,182)
State costs	($455,000)	($498,000)	($530,000)	($1,123,000)	($1,143,000)	($1,165,000)

Department of Early Learning
The Department of Early Learning contracts with a number of vendors to provide child care, preschool and early learning services directly to children and families. Many vendor contracts are paid on a performance-based deliverable basis or on an agreed-upon rate for a unit of service. In conjunction with state funds, many vendors receive federal funding and private funding to operate their full scope of business. Therefore, the potential impact for these vendor contracts and rates cannot be estimated.

Institutions of Higher Education
The state higher education system comprises the baccalaureate sector (four-year institutions) and the community and technical college system (two-year schools). The baccalaureate sector is the University of Washington, Washington State University, Central Washington University, Eastern Washington University, The Evergreen State College and Western Washington University. The community and technical college sector is 34 colleges located across the state.

The vast majority of classified and professional employees working for four-year institutions are already earning wage and benefit levels above those required in I-1433. Employees who would be affected by the initiative are primarily students, and temporary seasonal and hourly employees. At the University of Washington, 12 percent of employees potentially affected work in the University of Washington Medicine system.

Higher Education Assumptions
For employees in institutions of higher education, the following assumptions are built into the expenditure estimates:

- Wage estimates include the increased cost of employee benefits (such as employer contributions for Social Security) that are based on pay.
- Cost estimates were calculated by the baccalaureate institutions and by the State Board for Community and Technical Colleges, each on its own behalf.
- Higher education employees generally earn eight hours of sick leave per month. They do not, however, accrue that leave based on each 40 hours of work.
- Sick leave estimates include only those positions that must be backfilled with a substitute worker when someone is absent from work. Most positions that would be affected by the initiative do not need to be backfilled when those employees are sick.

To implement I-1433, most four-year institutions would have some administrative costs, primarily for staff to track employee leave under the initiative's requirements. Table 13 provides cost estimates and FTEs by fiscal year.

Table 13 – Higher education administrative implementation costs

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
FTEs	0.0	2.9	5.3	5.3	5.3	5.3
Costs	$0	$268,000	$315,000	$315,000	$315,000	$315,000

The costs of the minimum wage and sick leave backfill are displayed in Table 14.

Table 14 – Higher education minimum wage and sick leave backfill costs

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
4-year institution wage and benefit costs	$1,539,000	$3,880,000	$5,059,000	$8,994,000	$11,547,000	$12,498,000
4-year sick leave backfill	$0	$127,000	$256,000	$258,000	$263,000	$267,000
Community and technical college minimum wage cost	$317,000	$628,000	$731,000	$1,045,000	$1,276,000	$1,309,000

K-12 Education

The state allocates funding to school districts through formula-driven staff units and salaries, as defined in RCW 28A.150.260 and the omnibus appropriations act. I-1433 does not change the prototypical school staff ratios.

The current hourly salary allocation for certificated instructional staff is $24.79, for certificated administrative staff is $29.23 and for classified staff is $16.06. These allocations will continue to exceed the minimum hourly wages identified in I-1433.

Salary allocations for certificated instructional staff are for a full-time school year. Salary allocations for administrative and classified staff are for a full-time calendar year. The funding is for allocation purposes and is not adjusted based on actual days worked or number of days sick. Therefore, no change is expected in allocations to school districts related to the change in minimum wage or sick leave entitlement under the initiative.

Employment Security Department

I-1433 will increase the average annual wage calculated by the Employment Security Department, per state law. As a result, minimum and maximum weekly unemployment benefit amounts will increase, meaning unemployment claimants could receive a higher weekly benefit amount.

Table 15 provides fiscal year estimates of increased benefits payments to claimants.

Table 15 – Benefit payments from the Unemployment Insurance Trust Fund

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$7,100,000	$17,500,000	$24,800,000	$35,000,000	$46,200,000	$57,400,000

The combination of additional taxes and benefit payments results in an overall impact to the UI Trust Fund. Note there is a four-year lag between collection of UI taxes from employers and benefit payments. The tax is based on a four-year experience rating factor (e.g., 2020 tax rates for employers are based on benefit charges between 2015 and 2019). However, the benefit payments are paid immediately. Also, when there is a change in the number of employers paying UI taxes into the Trust Fund, the cost of benefit payments is spread among all paying employers (called the social cost factor). The combination of the lag between taxes and benefit payment as well as the social cost factor leads to a net impact to the UI Trust Fund.

Table 16 provides the total fiscal year impact to the UI Trust Fund from the change in minimum wage.

Table 16 – Unemployment Insurance Trust Fund impact

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$6,600,000	$22,000,000	$41,200,000	$63,700,000	$86,700,000	$111,800,000

State employee compensation

The state will incur costs for implementing the change to minimum wage, including increasing pay for those earning less than the minimum wage and the higher cost of employee benefits (such as employer contributions for Social Security) that are based on pay.

State employees, except for higher education employees, generally earn eight hours of sick leave per month. They do not, however, accrue that leave based on each 40 hours of work. It is assumed that changes to the pattern of sick leave accrual to meet the requirements of I-1433 can be made without a measurable increase in the overall cost of sick leave, although there will likely be some administrative work to implement the initiative's requirements.

Table 17 displays the estimated impact for state employee compensation due to the increase in the minimum wage.

Table 17 State employees (nonhigher education) implementation costs

FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
$3,630	$5,551	$119,784	$135,854	$139,522	$143,149

Local Government Revenue

There are no changes to local government revenue from I-1433.

Local Government Expenditures

The expenditure impact of I-1433 on local governments is indeterminate. The jurisdictions that could experience the greatest expenditure impact from I-1433 are small local governments, such as towns, park districts and library districts. This is due to their size and reliance on seasonal or part-time employees whose current wage may be less than the hourly rates specified in the initiative and who may not currently accrue any sick leave.

For most jurisdictions, the impact of I-1433 is likely to be minor (less than $50,000) to moderate (between $100,000 and $250,000). However, each jurisdiction could experience a range of impacts depending upon the number of full- and part-time employees it employs and individual sick leave policies. Many, if not all, jurisdictions would have minor one-time costs to update policies and payroll systems.

Less information is available on sick leave accrual in local government in Washington. Data from the 2015 Association of Washington Cities Salary and Benefits Survey, which surveyed only permanent full-time local government employees, found that six jurisdictions, each a town with a population fewer than 500, did not meet the minimum accrual level of paid sick leave required under the initiative.

No data is available to estimate the expenditure impact of paid sick leave requirements for part-time and seasonal local government employees.

Local School District Expenditure Assumptions

- School districts will continue to employ the same number of individuals for the same number of hours in future years.
- Current collective bargaining agreements offer more sick leave to employees than required under I-1433.

Local School District Expenditures

In the 2015–16 school year, school districts employed 1,656 FTEs at hourly wages less than the minimum wage amounts identified in I-1433. Fringe benefits are included in the estimated costs to school districts. To increase salaries to the minimum wage identified in I-1433, school district expenditures will increase as shown in Table 18.

No additional expenditures are incurred to comply with sick leave requirements under I-1433.

Table 18 – School district impacts of minimum wage

	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022
Estimated Consumer Price Index	N/A	N/A	N/A	N/A	1.9%	1.9%
Salary increase	$447,670	$679,744	$976,906	$3,316,619	$4,084,651	$4,867,277
Classified staff fringe benefits at 22.72%	$101,711	$154,438	$221,953	$753,536	$928,033	$1,105,845
Total CY cost	**$549,381**	**$834,182**	**$1,198,859**	**$4,070,155**	**$5,012,684**	**$5,973,122**
State FY cost	**$274,690**	**$691,781**	**$1,016,520**	**$2,634,507**	**$4,541,419**	**$5,492,903**