

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1694 - SB 2145

February 7, 2014

SUMMARY OF BILL: Defines the terms “employee”, “employer”, and “offering health benefits” for the purpose of wage regulation law. Requires employers that employ 20 or more employees to pay a minimum wage of \$7.25 per hour, when the employer offers health benefits to employees as defined; or pay a minimum wage of \$8.25 per hour when the employer does not offer health benefits to employees. Requires pay rates be adjusted periodically based on changes to federal minimum wage law, or changes in cost of living. Requires the Department of Labor and Workforce Development (DLWD) to publish a bulletin by April 1 of each year announcing any rate adjustments that will be effective the following July 1. Specifies the types of employment that will be exempt from the minimum wage requirements proposed in the bill. Authorizes any employee to bring action against a non-compliant employer, and prohibits any such employer from discharging an employee, reducing the compensation of the employee or otherwise discriminating against the employee for asserting rights established by the bill.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$701,500

Increase Local Expenditures – Exceeds \$100,000*

Assumptions:

- According to the Department of Labor and Workforce Development (DLWD) the bill will not have a significant fiscal impact on the department.
- According to the Department of Human Resources (DOHR), there are 247 part-time employees across state government where no health benefits are offered that will require a wage increase as a result of this bill. Based on information provided by DOHR, there will be a recurring increase in state expenditures estimated to be \$701,500 as a result of higher wage expense.
- The impact to local government expenditures is dependent on several unknown factors such as the number of local government employees that will be impacted by the bill, the extent of hours that each employee works in a year, the extent to which local governments offer health benefits meeting the criteria of the bill, and the extent to which local governments will begin offering health benefits as a result of this bill. Given the extent of unknown factors, a precise estimate for local government expenditures is

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difficult to determine. However, and based on the estimated impact to state government expenditures, the mandatory recurring increase in local government expenditures is reasonably estimated to exceed \$100,000 per year as a result of increased wage expense to local government employees.

- The net impact to state and local government revenue is estimated to be not significant. This assumes additional state and local sales tax collections for state and local governments respectively as a result of impacted employees spending a higher wage within the economy; however, any such impact is assumed to be offset by other reductions in state and local sales tax collections, as well as reductions in other business tax collections, occurring as a result of reduced net income for the impacted business owners occurring as a result of paying higher wage expense.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

IMPACT TO COMMERCE:

Increase Business Revenue – Exceeds \$50,000

Increase Business Expenditures – Exceeds \$100,000

Jobs Impact – Net Impact – Not Significant

- It is assumed that all employers impacted by this bill will elect to pay the additional \$1.00 per hour in wages in lieu of paying a portion of premiums for health benefits for such employees. The total cost of paying a portion of premiums for health benefits and the additional administrative cost to begin and continue offering such benefits is assumed to outweigh the additional wage expense.
- Increasing the minimum wage paid to employees from employers that do not offer health benefits will increase business wage expense for businesses.
- The extent of any increased business expenditures is dependent upon several unknown factors such as the number of Tennessee business entities impacted by the bill, the number of employees that will receive the pay increase, and the extent of hours that such employees work in a year, and whether the impacted business decides to reduce their total number of employees as a result of higher wage expense. Given these unknowns, determining a precise estimate for increased business expense is difficult. However, the cumulative and recurring increase in business expense for Tennessee businesses is reasonably estimated to exceed \$100,000 per year statewide.
- A portion of the additional wages paid as a result of this bill will be spent in the Tennessee economy. As a result, other Tennessee businesses will experience an increase in business revenue as the additional income is spent in the Tennessee economy. Assuming at least 50 percent of such additional income is spent with

Tennessee businesses, the increase in business revenue is reasonably estimated to exceed \$50,000 per year.

- Given that wage expense will increase for some employers, this could result in some companies reducing their number of employees to account for the higher wages. However, the additional wages being spent in the economy may increase demand for goods and services within the economy, thereby increasing the number of jobs for other businesses. The net impact to the number of Tennessee jobs is considered not significant.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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