Government of the District of Columbia
Office of the Chief Financial Officer

Jeffrey S. DeWitt
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Phil Mendelson**
Chairman, Council of the District of Columbia

FROM: **Jeffrey S. DeWitt**
Chief Financial Officer

DATE: **June 1, 2016**

SUBJECT: **Fiscal Impact Statement – Fair Shot Minimum Wage Amendment Act of 2016**

REFERENCE: **Bill 21-712, Draft Committee Print shared with the Office of Revenue Analysis on May 31, 2016**

Conclusion

Funds are sufficient in fiscal year 2016, and the proposed fiscal year 2017 through fiscal year 2020 budget and financial plan to implement the bill.

Background

The minimum wage in the District currently stands at $10.50 per hour, and will increase to $11.50 per hour beginning July 1, 2016.[1] Then, beginning July 1, 2017 the minimum wage will be adjusted for increases in the cost of living.[2]

The bill increases the District's minimum wage for regular hourly employees in the following manner:

- $12.50 per hour beginning July 1, 2017;
- $13.25 per hour beginning July 1, 2018;
- $14.00 per hour beginning July 1, 2019;
- $15.00 per hour beginning July 1, 2020; and

[1] In 2013, the District enacted legislation approving a series of increases in the minimum wage, which, then stood at $8.25 per hour. Minimum Wage Amendment Act of 2013 (D.C. Law 20-91; D.C. Official Code § 32-1003) became effective on March 11, 2014.
[2] On July 1, 2017 and each successive July 1, the minimum wage should be increased by the increase in the Consumer Price Index for All Urban Consumers in the Washington Metropolitan Statistical Area for the preceding twelve months.

- By the Consumer Price Index for All Urban Consumers in the Washington Metropolitan Statistical Area for the preceding twelve months beginning July 1, 2021 and each successive July 1.

The minimum wage for tipped-employees (for example, wait staff at restaurants) is now $2.77 per hour.[3] The bill will gradually increase the minimum wage for tipped employees to:

- $3.47 per hour beginning July 1, 2017;
- $4.17 per hour beginning July 1, 2018;
- $4.87 per hour beginning July 1, 2019; and
- $5.55 per hour beginning July 1, 2020.

The bill will also make District Government subject to minimum wage requirements—at present, the District Government is excluded, but it is bound by living wage requirements, which currently stands at $13.85. It also notes that the living wage cannot be less than the minimum wage established by the bill, and any contracts the District enters into must offer the minimum wage if the published living wage is less than the minimum wage.

Financial Plan Impact

Funds are sufficient in the fiscal year 2016 and the proposed fiscal year 2017 through fiscal year 2020 budget and financial plan to implement the bill. At present, approximately 100 District Government employees—most of them are part-time—receive less than the equivalent of $11.50 per hour. If the bill is enacted, the District must pay these employees the minimum wage.[4] The combined effect of this change is under $15,000 for District agencies in fiscal year 2016 and approximately $100,000 in fiscal year 2017. However, impacts on individual agencies are smaller and can be absorbed.

The impact of the minimum wage legislation on the revenue forecast and the financial plan

The Office of Revenue Analysis modeled several scenarios to assess the economic impact—and the consequent implications on the revenue forecast and the financial plan—of the minimum wage increase. ORA used a general equilibrium model developed by the Regional Economic Models, Inc. (henceforth, the REMI model). A general equilibrium model traces how changes in one or more sectors of the economy affect other sectors, taking into consideration the reactions of businesses, households, and workers in the District as well as surrounding jurisdictions.

The literature on the impacts of the minimum wage predicts a wide range of possible outcomes. Some studies predict positive impacts: they show that the economic impacts of job losses due to higher labor costs would be offset by the gains from higher wages in the hands of low-paid employees, who now spend more. Higher productivity and lower turnover rate, which benefit businesses, further dissipate any potential losses. Other studies find that these impacts could be negative, especially if businesses choose to replace workers with more capital investment (for example, by choosing automation such as self-checkout machines in supermarkets) or can take

[3] D.C. Official Code § 32-1003 (f). This wage was set in 2005.
[4] In addition, the University of the District of Columbia has 200 work-study positions that may be eligible for a wage raise under the bill.

their business activity to lower cost jurisdictions (for example, through outsourcing activity to lower cost locations, such as moving back-office duties from DC to another jurisdiction).

Under several scenarios, all of which assume that neighboring jurisdictions will not change their minimum wage requirements, the net revenue impact of minimum wage changes, whether positive or negative, will be small through the fiscal year 2017 to fiscal year 2020 financial plan period. Over time, however, the negative impacts on the District could get larger.

- The increase in the minimum wage will mostly affect workers in food services, accommodation, and administrative and office support occupations. There are approximately 127,000 such jobs in the District, and the District residents hold approximately 50,000 of these jobs.
- If increasing the minimum wage also increases salaries of those who now earn more than the minimum wage (because businesses will raise salaries to keep the wage differential between, for example, supervisors and workers), the bill could affect up to 168,000 workers, 66,000 of which are DC residents.
- Under all scenarios, the District job growth continues, but the growth is lower than what the REMI model projects without the proposed increase in the minimum wage.
- Job losses mostly affect low-paid, low-skilled workers who are disproportionately District residents. (The District residents hold 36 percent of all private sector jobs but 40 percent of the jobs that pay under $15 per hour).
- Under all scenarios, some District residents will have higher incomes. They will pay higher income taxes; some will spend more money because they have higher income (and pay more sales taxes) and some will no longer receive earned income tax credits.
- Because of relatively higher labor costs, District business activity declines and businesses become less competitive (assuming that neighboring jurisdictions do not change their minimum wage laws). Businesses can pass some, but not all, of the costs to their customers.
- The net economic effects—hence the net revenue impact—are small at the beginning, but, beyond the financial plan, as the wedge between District wages and wages in the neighboring jurisdictions widens, the negative impacts on businesses grow faster than the positive impacts on consumers and wage earners. Even in scenarios where there are small positive impacts at the beginning, the impacts could turn negative over time. (This can change if neighboring jurisdictions also increase their minimum wages).
- The scenario that jobs losses completely dissipate would require a 70 percent increase in efficiency. That is, if receiving a higher wage would encourage workers to produce 1.7 times what they did before, then businesses would not cut back their hiring at all. We do not think this is a possible outcome.

Given relatively small revenue impacts during the financial plan (and many uncertainties), the fiscal impact statement does not include any revenue side adjustments. But the Council should note the following two areas of caution:

1. On May 18, 2016, the U.S. Department of Labor revised the rules that govern overtime payments, expanding the requirements to every worker who earns less than $47,476 per year (or $913 per week), regardless of the managerial role of the employee. Current rules only cover employees who earn less than $23,660 per year (or 455 per week). The rule change will be in effect on December 1, 2016. It will affect 35 percent of the District’s workers, and could compound the effects of the minimum wage increase.

2. The District is also considering Paid Family Leave requirements on businesses. The combined fiscal effects of the minimum wage and paid leave requirements, depending on the family leave legislation, may change the revenue forecast in the financial plan.