



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number: H. 3480 Introduced on January 12, 2021
Author: Robinson
Subject: Minimum Wage
Requestor: House Ways and Means
RFA Analyst(s): Coomer and Payne
Impact Date: March 16, 2021 Updated for Revised Agency Response

Fiscal Impact Summary

Beginning in FY 2021-22, this bill may increase General Fund expenditures by \$13,785,000, Federal Funds expenditures by \$4,750,000, and Other Funds expenditures by \$10,314,000 to increase the hourly wage of employees in state agencies and higher education institutions to \$13 per hour. This impact could vary over time depending on the effect the minimum wage could have on employment and wage growth.

This bill may increase the General Fund expenditures of the Department of Mental Health (DMH) by a range of \$70,000 to \$114,000 annually beginning in FY 2021-22 to increase the hourly wage of patients participating in therapeutic work programs to \$13 per hour including benefits.

The full impact of this bill on General Fund, Federal Funds, and Other Funds revenue is unknown due to the unquantifiable effects a \$13 minimum wage may have on employment, personal income, consumer spending, prices, and general economic activity in South Carolina.

The full fiscal impact of this bill on local governments is unknown due to the highly variable data received from local governments. RFA estimates range from \$24,492,000 to \$81,849,000 with an average estimate of \$53,170,000 in expenditures to increase the annual wages of employees earning less than \$13 per hour.

A number of actions, including personnel and hours reductions, may be taken by state agencies and local governments to mitigate the expenditure impact of a \$13 minimum wage. The calculations performed in this analysis assume no effect from these mitigative actions due to the unquantifiable magnitude to which they may occur.

This fiscal impact has been updated for a revised response from DMH and additional responses from local governments.

Explanation of Fiscal Impact

Updated for Revised Agency Response on March 9, 2021
Introduced on January 12, 2021

State Expenditure

This bill sets the minimum wage in South Carolina at \$13 per hour or at the minimum wage provided for in the federal Fair Labor Standards Act (FLSA), whichever is greater. The current minimum wage provided for in the FLSA is \$7.25 per hour. Currently, South Carolina has no state-mandated minimum wage and instead adopts the federal minimum wage of \$7.25 per hour. The bill further updates code sections to ensure conformity, including a provision that ensures the new minimum wage applies to the therapeutic employment of patients within residential facilities operated by the Department of Mental Health (DMH).

As an initial reference point, at forty hours a week and fifty-two weeks a year of work, yearly annual income at the current minimum wage of \$7.25 per hour is \$15,080. At \$13 per hour, annual income increases to \$27,040. The current federal poverty level for a household of one is \$12,760, for a household of two is \$17,240, and for a household of three is \$21,720.

The Department of Administration (DOA) estimates that 4,867 FTEs at both state agencies and higher education institutions, as well as non-FTE employees at state agencies, earn less than \$13 per hour. Of this group, the full-time employees work on average 39.32 hours per week, and the part-time employees work 24.55 hours per week. DOA estimates that the total expenditure increase per year to meet the minimum wage requirement is \$28,849,000 not including employer contributions. Of this, \$13,785,000 is General Fund expenditure, \$4,750,000 is Federal Funds expenditure, and \$10,314,000 is Other Funds expenditure. RFA and DOA cannot estimate if and to what degree state agencies may act to reduce weekly employee hours or the number of employees to mitigate increased wage expenditures, and if this potential effect may lessen over time. These decisions would be made individually by state agencies.

DOA also reports that 8,022 employees earn between \$13 and \$16 per hour, and that 52,599 employees earn more than \$16 per hour. During calendar year 2020, the turnover rate was 25.40% for employees earning below \$13 per hour, 27.89% for those earning between \$13 and \$16 per hour, and 12.66% for those earning greater than \$16 per hour. DOA additionally notes that this bill would require a significant restructuring of the state's classification and compensation plan, as the new proposed minimum pay band would be above the current minimum of Pay Band Three.

In addition to the direct wage costs related to this bill, RFA has also identified a number of other potential effects that may have expenditure impacts. These potential effects from an increased minimum wage include:

- Increased costs of government contracts fulfilled by private employees
- Increased costs of goods purchased by state agencies as a result of any pass-through of increased labor costs experienced by private firms
- Upward pressure on the wages of state employees currently earning more than \$13 per hour
- Decreased turnover rates and direct costs to hire and train new state employees, in addition to increased productivity among employees

- Increased unemployment compensation due to job loss related to the increased minimum wage
- Decreased number of individuals who qualify for means-tested programs, such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the like

This estimate is complicated by the fact that the bill takes effect upon approval by the Governor. We have assumed it would be in effect for the entirety of FY 2021-22, but a different enactment date could have a substantial effect on this impact. Also, data does not exist to quantify the effects of an increase in the minimum wage of this magnitude because most minimum wage increases occurring in the U.S. have been implemented in small increments over a period of years. These minimum wage increases have generally occurred in states and locales whose costs of living exceed that of South Carolina.

Beginning in FY 2021-22, this bill may increase General Fund expenditures by \$13,785,000, Federal Funds expenditures by \$4,750,000, and Other Funds expenditures by \$10,314,000 to increase the hourly wage of employees in state agencies and higher education institutions to \$13 per hour. This impact could vary over time depending on the effect the minimum wage could have on employment and wage growth.

Department of Mental Health. A provision of this bill relates to patients in the care of DMH who participate in therapeutic employment, and would require such patients be paid no less than the \$13 minimum wage. According to DMH, the department typically provides therapeutic work programs at their G. Werber Bryan Psychiatric hospital and the programs are currently suspended due to COVID-19. DMH indicates that when the programs were operational, they averaged eighteen patient participants at one time. The pay rate for patient participants ranged from one-half the current federal minimum wage to the full federal minimum wage, or \$3.63 to \$7.25 an hour. Patients participating in therapeutic work programs worked an average of ten hours per week, and are eligible for benefits. Based on this information, DMH estimates the current annual wage expenditure to the department at the one-half of the federal minimum wage rate is as low as \$34,000 for eighteen participants working ten hours a week for fifty-two weeks at \$3.63 per hour, plus \$10,000 for benefits for a total of \$44,000. The current annual wage expenditure to the department at the full federal minimum wage could be as high as \$68,000 for eighteen participants working ten hours a week for fifty-two weeks at \$7.25 per hour, plus \$20,000 for benefits for a total of \$88,000. DMH estimates the average annual wage expenditure with the proposed \$13 minimum wage would be \$122,000 for eighteen participants working ten hours a week for fifty-two weeks at \$13.00 per hour, plus \$36,000 for benefits for a total of \$158,000. Therefore, this bill is estimated to increase General Fund expenditures of DMH by a range of \$70,000 to \$114,000 annually beginning in FY 2021-22 to increase the hourly wage of patients participating in therapeutic work programs to \$13 per hour including applicable benefits.

This fiscal impact has been updated for a revised response from DMH.

State Revenue

The impacts, both direct and indirect, that this bill may have on state income tax revenue, sales tax revenue, and other state revenue sources are not quantifiable. If the total amount of taxable

income generated by the minimum wage increase across the state can offset the total amount of taxable income lost through employee reductions and hours reductions, then income tax revenue may increase. Conversely, income tax revenue may decrease if the total amount of income generated by the minimum wage increase does not offset the total amount of income lost through employee reductions and hours reductions. Similarly, sales tax and other tax revenues may experience an increase or decrease depending on offsetting factors.

Using May 2019 estimates from the Occupational Employment Statistics Survey for South Carolina, RFA estimates that approximately 33% of total employed people in the state, or about 687,000 people, make less than \$13 per hour. These values appear in Figure 1 below. While the proportion making less than \$13 per hour varies significantly among occupational classes, certain occupational areas stand out where a majority of individuals earn less than \$13 per hour. Namely, these occupations involve food preparation and serving, healthcare support, building and grounds maintenance, and personal care services.

The full revenue impact of this bill is unknown due to the unquantifiable effects a \$13 minimum wage may have on employment, personal income, consumer spending, prices, and general economic activity in South Carolina.

Figure 1. Employment by Occupation

<i>Major Occupational Classification</i>	<i>Total Employed</i>	<i>Estimated Proportion Earning less than \$13/hour</i>	<i>Estimated Total Employees Earning less than \$13/hour</i>
Office and Administrative Support Occupations	276,980	25%	69,245
Sales and Related Occupations	228,040	53%	120,861
Food Preparation and Serving Related Occupations	216,890	79%	172,200
Production Occupations	198,450	22%	43,659
Transportation and Material Moving Occupations	191,820	41%	78,646
Healthcare Practitioners and Technical Occupations	128,110	<10%	N/A
Educational Instruction and Library Occupations	111,850	22%	24,607
Installation, Maintenance, and Repair Occupations	95,290	14%	13,341
Management Occupations	93,530	<10%	N/A
Construction and Extraction Occupations	84,910	14%	11,887
Business and Financial Operations Occupations	82,210	<10%	N/A
Healthcare Support Occupations	76,040	55%	41,822
Building and Grounds Cleaning and Maintenance Occupations	70,280	64%	44,979
Protective Service Occupations	48,290	26%	12,555
Personal Care and Service Occupations	43,620	64%	27,917
Computer and Mathematical Occupations	43,570	<10%	N/A
Architecture and Engineering Occupations	42,300	<10%	N/A

<i>Major Occupational Classification</i>	<i>Total Employed</i>	<i>Estimated Proportion Earning less than \$13/hour</i>	<i>Estimated Total Employees Earning less than \$13/hour</i>
Community and Social Service Occupations	26,890	16%	4,302
Arts, Design, Entertainment, Sports, and Media Occupations	19,520	21%	4,099
Legal Occupations	13,750	<10%	N/A
Life, Physical, and Social Science Occupations	11,440	<10%	N/A
Farming, Fishing, and Forestry Occupations	3,990	37%	1,476
All	2,107,760	33%	687,313

Local Expenditure

RFA contacted forty-six county governments and the Municipal Association of South Carolina (MASC) for input on the impact of this bill. Accumulated county responses appear in Figure 2 below, and accumulated municipal responses appear in Figure 3 below. Local governments report that many of the positions earning less than \$13 per hour are workers in parks and recreation facilities, in waste management departments, in manned trash site facilities, in public works departments, and in food service positions in detention facilities. Emergency services personnel, 911 dispatchers, and firefighters are mentioned regularly, but compulsory overtime schedules lead to many of these workers averaging more than \$13. While most locales are unable to estimate the full expenditure impact of this bill, many report actions that may be necessary to mitigate the cost of wage increases. These include potential reductions in hours and personnel, reductions in local government facilities' operating hours, increases in park fees and waste fees, increases in rental rates, reductions in health benefits provided to employees, and reductions in the number of ambulances per shift. Many locales also report that property tax increases may be necessary to fund minimum wage increases.

Figure 2. County Government Responses

<i>County</i>	<i>Estimated Impact</i>	<i>Number of Employees Earning less than \$13/hour</i>	<i>Number of Employees Earning more than \$13/hour</i>
Berkeley	None/Minimal	1	N/A
Chesterfield	\$287,117 (not including fringe)	86	172
Hampton	\$1,744,000	N/A	N/A
Horry	\$10,826,247	239	2296
Lancaster	N/A	250	500
Lee	\$292,612	18 FTEs, 22 part-time	117
Lexington	\$388,000	N/A	N/A

<i>County</i>	<i>Estimated Impact</i>	<i>Number of Employees Earning less than \$13/hour</i>	<i>Number of Employees Earning more than \$13/hour</i>
Saluda	N/A	61	91
Spartanburg	\$426,790 (includes fringe)	10 FTEs, 116 part-time	1,350 FTEs, 125 part-time

Figure 3. Municipal Government Responses

<i>Municipality</i>	<i>Estimated Impact</i>	<i>Number of Employees Earning less than \$13/hour</i>	<i>Number of Employees Earning more than \$13/hour</i>
Anderson	\$76,900	52	400
Batesburg-Leesville	\$25,590	5	59
Briarcliff Acres	N/A	0	2
Chesterfield	\$11,500	9	N/A
Easley	\$0	27	N/A
Edisto Beach	\$0	N/A	N/A
Florence	N/A	16	152
Gaffney	\$158,000	32	118
Greenville	N/A	19	1925
Lancaster	\$350,000 (includes raises for those making more than \$13/hour)	N/A	N/A
Manning	\$17,000	11	N/A
Newberry	N/A	16	152
North Augusta	N/A	18	226
Pacolet	\$6,770	2	8
Santee	\$0	N/A	N/A
Tega Cay	\$300,000 (includes raises for those making more than \$13/hour)	0	N/A
York	\$10,000-\$12,000	11	95-100

Using these figures, RFA estimates that the total expenditure impact of this bill on local governments ranges from \$24,492,000 to \$81,849,000 with an average estimate of \$53,170,000. Given the small sample size of and highly variable nature of data received from local governments, as well as the aforementioned unquantifiable effects that a minimum wage increase may have, the full expenditure impact of this bill on local government revenue is unknown.

This fiscal impact has been updated for additional responses from local governments.

Local Revenue

This bill is expected to have an undetermined impact on local government revenue. Actions taken by local governments to mitigate the cost of wage increases may also impact local revenue such as reductions in local government facilities' operating hours, increases in certain fees, and increases in property taxes.

Introduced on January 12, 2021

State Expenditure

This bill sets the minimum wage in South Carolina at \$13 per hour or at the minimum wage provided for in the federal Fair Labor Standards Act (FLSA), whichever is greater. The current minimum wage provided for in the FLSA is \$7.25 per hour. Currently, South Carolina has no state-mandated minimum wage and instead adopts the federal minimum wage of \$7.25 per hour. The bill further updates code sections to ensure conformity, including a provision that ensures the new minimum wage applies to the therapeutic employment of patients within residential facilities operated by the Department of Mental Health (DMH).

As an initial reference point, at forty hours a week and fifty-two weeks a year of work, yearly annual income at the current minimum wage of \$7.25 per hour is \$15,080. At \$13 per hour, annual income increases to \$27,040. The current federal poverty level for a household of one is \$12,760, for a household of two is \$17,240, and for a household of three is \$21,720.

The Department of Administration (DOA) estimates that 4,867 FTEs at both state agencies and higher education institutions, as well as non-FTE employees at state agencies, earn less than \$13 per hour. Of this group, the full-time employees work on average 39.32 hours per week, and the part-time employees work 24.55 hours per week. DOA estimates that the total expenditure increase per year to meet the minimum wage requirement is \$28,849,000 not including employer contributions. Of this, \$13,785,000 is General Fund expenditure, \$4,750,000 is Federal Funds expenditure, and \$10,314,000 is Other Funds expenditure. RFA and DOA cannot estimate if and to what degree state agencies may act to reduce weekly employee hours or the number of employees to mitigate increased wage expenditures, and if this potential effect may lessen over time. These decisions would be made individually by state agencies.

DOA also reports that 8,022 employees earn between \$13 and \$16 per hour, and that 52,599 employees earn more than \$16 per hour. During calendar year 2020, the turnover rate was 25.40% for employees earning below \$13 per hour, 27.89% for those earning between \$13 and \$16 per hour, and 12.66% for those earning greater than \$16 per hour. DOA additionally notes

that this bill would require a significant restructuring of the state's classification and compensation plan, as the new proposed minimum pay band would be above the current minimum of Pay Band Three.

In addition to the direct wage costs related to this bill, RFA has also identified a number of other potential effects that may have expenditure impacts. These potential effects from an increased minimum wage include:

- Increased costs of government contracts fulfilled by private employees
- Increased costs of goods purchased by state agencies as a result of any pass-through of increased labor costs experienced by private firms
- Upward pressure on the wages of state employees currently earning more than \$13 per hour
- Decreased turnover rates and direct costs to hire and train new state employees, in addition to increased productivity among employees
- Increased unemployment compensation due to job loss related to the increased minimum wage
- Decreased number of individuals who qualify for means-tested programs, such as Medicaid, the Supplemental Nutrition Assistance Program (SNAP), and the like

RFA cannot estimate if and to what degree the increased minimum wage may impact these expenditures partly because the full increase takes effect immediately upon approval by the Governor. Data does not exist to quantify the effects of an increase in the minimum wage of this magnitude because most minimum wage increases occurring in the U.S. have been implemented in small increments over a period of years. These minimum wage increases have generally occurred in states and locales whose costs of living exceed that of South Carolina.

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Department of Mental Health. A provision of this bill relates to patients in the care of DMH who participate in therapeutic employment, and would require such patients be paid no less than the \$13 minimum wage. According to DMH, the department typically provides therapeutic work programs at their G. Werber Bryan Psychiatric hospital and the programs are currently suspended due to COVID-19. DMH indicates that when the programs were operational, they averaged eighteen patient participants at one time. The pay rate for patient participants ranged from one-half the current federal minimum wage to the full federal minimum wage, or \$3.63 to \$7.25 an hour. Patients participating in therapeutic work programs worked an average of ten hours per week. Based on this information, DMH estimates the current annual wage expenditure to the department is as low as \$33,977 for eighteen participants working ten hours a week for fifty-two weeks at \$3.63 per hour, or as high as \$67,860 for eighteen participants working ten hours a week for fifty-two weeks at \$7.25 per hour. DMH estimates the average annual wage

expenditure with the proposed \$13 minimum wage would be \$121,680 for eighteen participants working ten hours a week for fifty-two weeks at \$13.00 per hour. Therefore, this bill is estimated to increase General Fund expenditures of DMH by a range of \$53,820 to \$87,703 annually beginning in FY 2021-22 to increase the hourly wage of patients participating in therapeutic work programs to \$13 per hour.

State Revenue

The impacts, both direct and indirect, that this bill may have on state income tax revenue, sales tax revenue, and other state revenue sources are not quantifiable. If the total amount of taxable income generated by the minimum wage increase across the state can offset the total amount of taxable income lost through employee reductions and hours reductions, then income tax revenue may increase. Conversely, income tax revenue may decrease if the total amount of income generated by the minimum wage increase does not offset the total amount of income lost through employee reductions and hours reductions. Similarly, sales tax and other tax revenues may experience an increase or decrease depending on offsetting factors.

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Saluda	N/A	61	91
Spartanburg	\$426,790 (includes fringe)	10 FTEs, 116 part-time	1,350 FTEs, 125 part-time

Using these figures, RFA estimates for the total expenditure impact of this bill on local governments range from \$31,631,000 to \$50,893,000. The first value is calculated by scaling the average reported expenditure impact per county to the full state. The second value is calculated by using the average proportion of local government employees making less than \$13 per hour, the average cost increase per employee making less than \$13 per hour, and the number of local government employees per capita to estimate the total local government cost based on the entire state population. Given the small sample size of this data and the aforementioned unquantifiable effects that a minimum wage increase may have, the full expenditure impact of this bill on local government revenue is unknown.

Local Revenue

This bill is expected to have an undetermined impact on local government revenue. Actions taken by local governments to mitigate the cost of wage increases may also impact local revenue such as reductions in local government facilities' operating hours, increases in certain fees, and increases in property taxes.

Frank A. Rainwater, Executive Director