

**Date:** May 23, 2014

**Subject:** Estimated Fiscal Impact of Minimum Wage Increases for FY15

Political leaders at both the state and city level have recently contemplated minimum wage increases. During Washington's 2014 legislative session, lawmakers proposed (but did not pass) [a bill](#) that would have progressively increased the state's minimum hourly wage from \$9.32 per hour to \$12.00 per hour. Additionally, on May 1<sup>st</sup>, Seattle mayor Ed Murray announced a proposal developed by his income inequality committee to eventually increase the city's minimum wage to \$15.00 per hour.

The Governor's Office consequently requested that the Office of Financial Management (OFM) compile an estimate of what it would cost state agencies to comply with such minimum wage proposals. OFM asked higher education institutions to estimate the FY15 costs of the following four scenarios and to assume that the scenarios are alternatives, not a series of phased-in increases:

- A. Increasing the minimum wage from \$9.32 to \$12.00 per hour,
- B. Increasing from \$9.32 to \$13.00 per hour,
- C. Increasing from \$9.32 to \$14.00 per hour, and
- D. Increasing from \$9.32 to \$15.00 per hour.

The following brief describes the UW's response to the Governor's data request and provides estimates of what it would cost to correct for issues of salary compression.

### **Pay Increase Costs and Associated Benefit Increase Costs**

Table 1, on page 2, shows the estimated FY15 pay increase costs and associated benefits increase costs for each of the four scenarios. The data and assumptions that were used to compile the estimates are described below.

#### ***Methodology for Hourly Employees:***

**Data Used:** Summarized, actual distribution data for all twelve months of calendar year 2013 for all employee types paid a full-time hourly rate less than \$15.00 per hour.

#### **Assumptions applied:**

- Only base pay was included in the calculations, no premiums or additional pays;
- Costs associated with the hourly employee marginal benefit load rate of 14.2 percent are shown separately;
- Full-time hourly rates below the Jan 1, 2014 State minimum wage were adjusted to the new minimum (\$9.32/hour) as the starting place for the costing exercise;
- Contract Classified hourly rates were adjusted for a 2 percent minimum step increase and up-to 80 percent negotiated market adjustment, which will take effect July 1, 2014; and
- The hourly rates of readers/graders/tutors were adjusted by 2 percent, which will also take effect July 1, 2014.

#### ***Methodology for Monthly Employees:***

**Data Used:** Extract of actual distribution data from the pay period ending December 31, 2013 for all employee types paid a full-time monthly rate less than \$2,600 per month (the equivalent of \$15.00 per hour).

#### **Assumptions applied:**

- Only base pay was included in the calculations, no premiums or additional pays;
- Costs associated with the monthly employee marginal benefit load rate of 17.8 percent are shown separately;

- Pay period earnings were extrapolated to annualized cost based on calculated annualized pay periods; and
- Contract Classified monthly rates were adjusted to account for a 2 percent minimum across-the-board increase and an up-to 80 percent negotiated market adjustment, which will both be effective on July 1, 2014.

**Methodology for Employees Excluded Under Current Law:**

The additional costs listed for “employees excluded under current law” reflect the pay increase costs and benefits costs for UW **hourly undergraduate student employees**. The same assumptions used to derive costs for hourly employees (listed above) were used to calculate the costs associated with hourly undergraduate student employees.

**Table 1: Estimated 12 Month Cost (for FY15) to Increase Hourly and Monthly Employees to Meet Proposed Minimum Wage (\$ Single Dollars)**

Scenario and Costs	State Funds <sup>1</sup>	Other Funds <sup>2</sup>	Total Funds
<b>A: Increase from \$9.32 to \$12.00</b>			
Pay Increase Costs	\$56,994	\$237,675	\$294,669
Benefits Costs	\$8,327	\$36,025	\$44,352
<b>Total</b>	<b>\$65,321</b>	<b>\$273,700</b>	<b>\$339,021</b>
<i>Additional costs: employees excluded under current law</i>	<i>\$371,058</i>	<i>\$3,459,289</i>	<i>\$3,830,347</i>
<b>B: Increase from \$9.32 to \$13.00</b>			
Pay Increase Costs	\$241,878	\$727,496	\$969,374
Benefits Costs	\$36,793	\$113,593	\$150,387
<b>Total</b>	<b>\$278,671</b>	<b>\$841,089</b>	<b>\$1,119,760</b>
<i>Additional costs: employees excluded under current law</i>	<i>\$589,426</i>	<i>\$5,462,221</i>	<i>\$6,051,648</i>
<b>C: Increase from \$9.32 to \$14.00</b>			
Pay Increase Costs	\$527,584	\$1,461,523	\$1,989,107
Benefits Costs	\$82,672	\$231,135	\$313,807
<b>Total</b>	<b>\$610,256</b>	<b>\$1,692,658</b>	<b>\$2,302,914</b>
<i>Additional costs: employees excluded under current law</i>	<i>\$819,653</i>	<i>\$7,625,018</i>	<i>\$8,444,672</i>
<b>D: Increase from \$9.32 to \$15.00</b>			
Pay Increase Costs	\$1,037,692	\$2,815,208	\$3,852,900
Benefits Costs	\$165,393	\$449,909	\$615,302
<b>Total</b>	<b>\$1,203,085</b>	<b>\$3,265,117</b>	<b>\$4,468,201</b>
<i>Additional costs: employees excluded under current law</i>	<i>\$1,145,034</i>	<i>\$10,707,557</i>	<i>\$11,852,591</i>

<sup>1</sup> “State funds” includes General Fund – State (GFS) appropriations as well as Education Legacy Trust (ELT) appropriations. As the UW’s payroll system does not allow differentiate GFS expenditures from ELT expenditures, to calculate the costs associated with ELT, we took the percentage of the UW’s FY15 state appropriation that came from ELT (2.8 percent) and attributed costs proportionately.

<sup>2</sup> “Other funds” includes state-appropriated funds other than GFS and ELT.

**Compression Adjustments**

In addition to increasing the wages of any FTE whose pay falls below the monthly equivalent of the minimum hourly wage, the UW believes it would need to provide compression adjustments to maintain classified staff salary relationships (indexing). The UW also believes would need to increase the pay of any monthly employees in the same “class series” (or market benchmark grouping) as the employees receiving a minimum wage increase.

Table 2, below presents the estimated costs to correct salary compression for monthly employees paid above proposed minimum wage levels. The data and assumptions used to compile the estimates are as follows.

**Data Used:** Extract of actual distribution data from the pay period ending December 31, 2013 for all employee types paid a full-time monthly rate greater than or equal to \$2080, \$2253, \$2427, or \$2600 per month (the monthly equivalents of \$12, \$13, \$14 and \$15 per hour) where compression is created because salary relationships are based on indexed pay structures.

**Assumptions applied:**

- Only base pay was included in the calculations, no premiums or additional pays;
- Costs associated with the monthly employee marginal benefit load rate of 17.8 percent are shown separately;
- Pay period earnings were extrapolated to annualized cost based on calculated annualized pay periods;
- Contract Classified monthly rates were adjusted to account for a 2 percent minimum across-the-board increase and an up-to 80 percent negotiated market adjustment, which will both be effective on July 1, 2014; and
- Compression costs were determined by applying the average percent adjustment received by monthly employees earning below the proposed minimum wages to the earnings of the compression group.

**Table 2: Estimated 12 Month Cost (for FY15) to Correct Salary Compression for Monthly Paid Employees Paid Above Proposed Minimum Wage (\$ Single Dollars)**

Scenario/Costs	State Funds <sup>1</sup>	Other Funds <sup>2</sup>	Total Funds
<b>A: Increase from \$9.32 to \$12.00</b>			
Pay Increase Cost	\$5,172	\$29,601	\$34,774
Benefits Costs	\$921	\$5,269	\$6,190
<b>Total</b>	<b>\$6,093</b>	<b>\$34,870</b>	<b>\$40,964</b>
<b>B: Increase from \$9.32 to \$13.00</b>			
Pay Increase Cost	\$115,889	\$429,239	\$545,128
Benefits Costs	\$20,628	\$76,405	\$97,033
<b>Total</b>	<b>\$136,517</b>	<b>\$505,644</b>	<b>\$642,161</b>
<b>C: Increase from \$9.32 to \$14.00</b>			
Pay Increase Cost	\$442,378	\$1,519,890	\$1,962,268
Benefits Costs	\$78,743	\$270,540	\$349,284
<b>Total</b>	<b>\$521,121</b>	<b>\$1,790,431</b>	<b>\$2,311,552</b>
<b>D: Increase from \$9.32 to \$15.00</b>			
Pay Increase Cost	\$1,605,732	\$4,614,370	\$6,220,102
Benefits Costs	\$285,820	\$821,358	\$1,107,178
<b>Total</b>	<b>\$1,891,552</b>	<b>\$5,435,728</b>	<b>\$7,327,280</b>