

**MISSOURI STATE AUDITOR'S OFFICE  
FISCAL NOTE (24-017)**

**Subject**

Initiative petition from Terrence Wise regarding a proposed amendment to Chapter 290 of the Revised Statutes of Missouri. (Received December 29, 2022)

**Date**

January 18, 2023

**Description**

This proposal would amend Chapter 290 of the Revised Statutes of Missouri.

The amendment is to be voted on in November 2024.

**Public comments and other input**

The State Auditor's office requested input from the **Attorney General's office**, the **Department of Agriculture**, the **Department of Economic Development**, the **Department of Elementary and Secondary Education**, the **Department of Higher Education and Workforce Development**, the **Department of Health and Senior Services**, the **Department of Commerce and Insurance**, the **Department of Mental Health**, the **Department of Natural Resources**, the **Department of Corrections**, the **Department of Labor and Industrial Relations**, the **Department of Revenue**, the **Department of Public Safety**, the **Missouri Department of the National Guard**, the **Department of Social Services**, the **Governor's office**, the **Missouri House of Representatives**, the **Department of Conservation**, the **Department of Transportation**, the **Office of Administration**, the **Office of State Courts Administrator**, the **Missouri Senate**, the **Secretary of State's office**, the **Office of the State Public Defender**, the **State Treasurer's office**, **Adair County**, **Boone County**, **Callaway County**, **Cass County**, **Clay County**, **Cole County**, **Greene County**, **Jackson County**, **Jasper County**, **St. Charles County**, **St. Louis County**, **Taney County**, the **City of Cape Girardeau**, the **City of Columbia**, the **City of Jefferson**, the **City of Joplin**, the **City of Kansas City**, the **City of Kirksville**, the **City of Mexico**, the **City of Raymore**, the **City of St. Joseph**, the **City of St. Louis**, the **City of Springfield**, the **City of Union**, the **City of Wentzville**, the **City of West Plains**, **Cape Girardeau 63 School District**, **Hannibal 60 School District**, **Malta Bend R-V School District**, **Mehlville School District**, **Wellsville-Middletown R-1 School District**, **State Technical College of Missouri**, **Metropolitan Community College**, **University of Missouri**, **St. Louis Community College**, **University of Central Missouri**, **Harris-Stowe State University**, **Lincoln University**, **Missouri State University**, **Missouri Southern State University**, **Missouri Western State University**, **Northwest Missouri State University**, **Southeast Missouri State University**, **Truman State University**, the **Kansas City Board of Police Commissioners**, the **Metropolitan**

**Police Department - City of St. Louis, St. Louis County Board of Elections, Board of Election Commissioners City of St. Louis, Kansas City Board of Election Commissioners, Platte County Board of Elections, Jackson County Election Board, and the Clay County Board of Election Commissioners.**

**Richard von Glahn, Policy Director, Missouri Jobs with Justice** provided information to the State Auditor's office.

## **Assumptions**

Officials from the **Attorney General's office** indicated they expect that, to the extent that the enactment of this proposal would result in increased litigation, they could absorb the costs associated with that increased litigation using existing resources. However, if the enactment of this proposal were to result in substantial additional litigation, they may be required to request additional appropriations.

Officials from the **Department of Agriculture** indicated no fiscal impact to their department.

Officials from the **Department of Economic Development** indicated no fiscal impact to their department.

Officials from the **Department of Elementary and Secondary Education** indicated this initiative petition will have no fiscal impact on their department.

Officials from the **Department of Higher Education and Workforce Development** indicated no impact to their department.

Officials from the **Department of Health and Senior Services** indicated no impact.

Officials from the **Department of Commerce and Insurance** indicated that this petition if passed will have no anticipated cost or savings to their department.

Officials from the **Department of Mental Health** indicated they assume no direct fiscal impact from the proposed statutory amendment to Chapter 290 as government employees are exempt from its provisions. However, employees of providers that receive their department's funding would be impacted, which would include all contracted department providers.

Officials from the **Department of Natural Resources** indicated this proposal might impact their department however, they defer to the Office of Administration to respond.

Officials from the **Department of Corrections** indicated their department currently has employees earning less than \$16.25 an hour, however, with the delayed implementation date of 2027, it is unknown what pay plans state employees will be provided that would

raise these employees to above the set \$16.25 amount. Therefore this legislation has a \$0 to unknown fiscal cost.

Officials from the **Department of Labor and Industrial Relations** indicated they anticipated no fiscal impact for this initiative petition proposing to amend Chapter 290, RSMo, Version 2.

Officials from the **Department of Revenue** indicated no impact.

Officials from the **Department of Public Safety - Office of the Director** indicated no impact for their office.

Officials from the **Missouri Department of the National Guard** indicated no impact for their office.

Officials from the **Department of Social Services** indicated they do not anticipate a fiscal impact at this time.

Officials from the **Governor's office** indicated this proposal relating to minimum wage law does not financially impact their office.

Officials from the **Missouri House of Representatives** indicated no fiscal impact as the language states that the new rate does not apply to State employees under the definition of public employer.

Officials from the **Department of Conservation** indicated this petition would have no immediate fiscal impact on their agency. Because the petition proposes to graduate or increase the minimum wage every two years until it reaches \$16.25 per hour, it could have a negative fiscal impact on their agency, but that is only provided their agency doesn't increase its present lowest hourly rate over the same time as that referenced in the petition.

Officials from the **Department of Transportation** indicated no fiscal impact expected from their department on this initiative petition.

Officials from the **Office of Administration** indicated this proposal relating to minimum wage law does not financially impact their office.

Officials from the **Office of State Courts Administrator** indicated they would have an impact even if exempt.

Officials from the **Missouri Senate** indicated they anticipate no fiscal impact.

Officials from the **Secretary of State's office** indicated each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Referendums are submitted to the people at the next general election. Article III section 52(b) of the Missouri Constitution authorizes the general assembly to order a special election for measures referred to the people. If a special election is called to submit a Referendum to a vote of the people, Section 115.063.2 RSMo. requires the state to pay the costs. The cost of the special election has been estimated to be \$7 million based on the cost of the 2020 Presidential Preference Primary.

Their office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over 5.8 million was spent to publish the full text of the measures for the August and November elections. They estimate \$75,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

Their office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, they reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Officials from the **Office of the State Public Defender** indicated this initiative petition will have no fiscal impact on their office.

Officials from the **State Treasurer's office** indicated no fiscal impact to their office.

Officials from **Greene County** indicated there are no estimated costs or savings to report from their county for this initiative petition.

Officials from **St Louis County** indicated no fiscal impact for their county government.

Officials from the **City of Jefferson** indicated that if public employers are exempt then they do not think there will be a fiscal impact to their city.

Officials from the **City of Kansas City** indicated this petition would have no fiscal impact on their city.

Officials from **Metropolitan Community College** indicated that for the college to attract and retain employees, they will need competitive wages. Although there would not be a direct fiscal impact on any of those scenarios presented, they expect there to be indirect impact.

Officials from the **St. Louis Community College** indicated while any increase in the minimum wage could have a detrimental effect on their budget, the prospective change in a wage rate based upon a CPI-W increase (or any other index) cannot be determined at this time. Their current cost structure on hourly employees is generally at or exceeding the \$16.25/hr rate; therefore, the effect would be minimal until the CPI-W kicks in.

Officials from the **University of Central Missouri** indicated they have determined the impact of this petition to be: No impact.

Officials from **Missouri Southern State University** indicated no impact as they would be exempt as a public employer.

Officials from the **St. Louis County Board of Elections** indicated they do not predict any fiscal impact for this petition.

Officials from the **Board of Election Commissioners City of St. Louis** indicated they are public employees and exempt for this petition and have no fiscal impact.

Officials from the **Kansas City Board of Election Commissioners** indicated no material impact on their operations.

Officials from the **Platte County Board of Elections** indicated no fiscal impact.

Officials from the **Jackson County Election Board** indicated this petition would not have a direct fiscal impact on their Board.

**Richard von Glahn, Policy Director, Missouri Jobs with Justice** provided the following information:

| Summary of Minimum Wage Proposals |                                               |                              |                       |
|-----------------------------------|-----------------------------------------------|------------------------------|-----------------------|
| Version number                    |                                               | Initiative summary           |                       |
| Version number                    | Version number assigned by Secretary of State | Minimum wage level           | Tipped credit change* |
| 1                                 | 24-016                                        | \$15 by '27 (\$.75/year)     | no                    |
| 2                                 | 24-017                                        | \$16.25 by '27 (\$1.25/year) | no                    |
| 3                                 | 24-018                                        | \$15 by '26 (\$1.25/year)    | no                    |
| 4                                 | 24-019                                        | \$16 by '27 (\$1/year)       | no                    |
| 5                                 | 24-020                                        | \$15 by '27 (\$.75/year)     | yes                   |
| 6                                 | 24-021                                        | \$16.25 by '27 (\$1.25/year) | yes                   |
| 7                                 | 24-022                                        | \$15 by '26 (\$1.25/year)    | yes                   |
| 8                                 | 24-023                                        | \$16 by '27 (\$1/year)       | yes                   |

*\* in the case of a change in the tipped credit, all versions are the same with a gradual phase out of the tip credit at 5% of the total minimum wage rate per year.*

This letter is from Richard von Glahn and Missouri Jobs with Justice Voter Action, proponents of the above referenced minimum wage petitions. Pursuant to RsMO 116.175 we write to submit the following fiscal impact information to assist your office in the analysis of of the above mentioned eight minimum wage petitions.

Our analysis estimates the impact of the proposed petitions on state sales and personal income tax revenue in Missouri. Our analysis follows a process that has been used in the past to estimate the impact of minimum wage increases, with some updates. We are unable to provide calculations on local sales and income tax revenue, although it should be noted that impacted workers in Kansas City and St. Louis City are subject to a 1% earnings tax on income, so those municipalities will experience revenue gains from their constituents seeing wage increases. Local sales tax revenue will also increase, although the different taxing rates per jurisdiction made estimates overly cumbersome to predict. We also reference some economic literature on the impact of minimum wage laws on employment , social benefit spending and downstream impacts of wage increase in order to address some common claims made by opponents of similar initiatives in the past as well as provide a broader context of impact of wage increases.

As each of these petitions explicitly exclude public employers<sup>1</sup> from proposed increases, we do not include an analysis of payroll expenses to these employers.

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<sup>1</sup> Section 290.502 (4)

## **I. Economic literature on the employment impact of increases in the minimum wage**

With 30 states and numerous other municipalities having increased the minimum wage above the federal minimum, there is ample evidence of the impact of these increases. While opponents will undoubtedly cite individual studies that predict catastrophic job loss and resulting decline in state revenue, the most credible comprehensive review of empirical evidence comes from Hristos Doucouliagos and T.D. Stanley and shows no discernible impact on employment. Their study, “Publication Selection Bias in Minimum- Wage Research? A Meta-Regression Analysis<sup>2</sup>” combines over 1,500 estimates from 64 different studies. This peer reviewed article has the advantage of any single study in that it used a set of predetermined, objective criteria for weighing the validity of statistical findings across different studies that produced different results.

In addition to this comprehensive review, a recent publication “Are \$15 Minimum Wages too High” provides an analysis of California which has gradually increased the minimum wage from \$8 in 2014 to \$15 in 2022. Their analysis focuses on impacts of two groups of workers most exposed to minimum wage increases- teenagers and restaurant workers and finds that “substantial and ongoing pay increases throughout the treatment period and find no significant disemployment effects, even in relatively low-wage counties.<sup>3</sup>” This is the most recent study and is analyzing a similar level of increases and time period as the proposed initiatives.

There is ample empirical and theoretical evidence that corroborates these studies. First, relative to total wage and labor costs, minimum-wage increases are small. Second, employers and workers respond to minimum wage increases in many ways that reduce the actual costs to employers.

Probably the most important economic response to a higher minimum wage is a reduction in turnover. At higher wages, employers fill vacancies faster and retain employees longer, boosting total employment and average productivity per worker while reducing direct and indirect training costs. A 2017 study by employee benefits news found that turnover costs as high as 33% of a workers annual salary<sup>4</sup>. Avoiding these costs provides an obvious benefit to employers and research from Dube, Lester and Reich in 2012<sup>5</sup> finds “striking evidence that separations, new hires, and turnover rates for teens and restaurant workers fall substantially following a minimum wage increase.”

Based on these empirical studies we feel confident in concluding that there is no evidence that increasing the minimum wage will reduce employment. Accordingly, we do not include any projections for impact on employment and the resulting effects on revenue in our analysis.

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<sup>2</sup> Doucouliagos, Hristos and T.D. Stanley. 2009 “Publication Selection Bias in Minimum-Wage Research? A Meta - Regression Analysis.” *British Journal of Industrial Relations*, vol. 47, no. 2, pp. 406-428

<sup>3</sup> <https://irle.berkeley.edu/are-15-minimum-wages-too-high/>

<sup>4</sup> <https://www.benefitnews.com/news/avoidable-turnover-costing-employers-big>

<sup>5</sup> <https://irle.berkeley.edu/files/2012/Minimum-Wage-Shocks-Employment-Flows-and-Labor.pdf>

## II. Impact on state and federal spending on social safety net programs

One area where the state is likely to experience significant direct savings from an increase in the minimum wage is on state spending on social safety net programs. Research suggests that at least 44% of Missouri recipients of Medicaid, SNAP or the Federal EITC are members of working families who would be directly impacted by the proposed initiatives<sup>6</sup>. State and Federal spending for this share of the workers on these programs totals \$2,400,000.00 dollars. While programs such as SNAP are paid entirely by the federal government, medicaid has a percentage paid by state revenue and the state EITC going into effect this year will cost the state revenue. While individual circumstances often dictate the cost of these or similar programs to the state, it holds that as workers earn higher wages at work access to these benefits will decrease, saving the state potentially tens of millions of dollars.

## III. Estimate of number of workers impacted statewide and impact on wages

| Number of impacted workers |               |                     |         | Total Wage Growth |
|----------------------------|---------------|---------------------|---------|-------------------|
|                            | Direct impact | Indirectly impacted | Total   |                   |
| Proposal 1                 | 293,000       | 198,000             | 491,000 | \$576,819,000     |
| Proposal 2                 | 382,000       | 235,000             | 616,000 | \$1,076,047,000   |
| Proposal 3                 | 331,000       | 194,000             | 525,000 | \$733,133,000     |
| Proposal 4                 | 394,000       | 241,000             | 635,000 | \$1,222,991,000   |
| Proposal 5                 | 293,000       | 198,000             | 491,000 | \$688,721,000     |
| Proposal 6                 | 382,000       | 235,000             | 616,000 | \$1,213,236,000   |
| Proposal 7                 | 331,000       | 194,000             | 525,000 | \$852,823,000     |
| Proposal 8                 | 394,000       | 241,000             | 635,000 | \$1,346,386,000   |

*Note: All wages in 2022 dollars*

*Source: Economic Policy Institute Minimum Wage Simulation Model; see Technical Methodology by Dave Cooper, Zane Mokhiber, and Ben Zipperer.*

Across all eight version of the petitions estimates show a low of \$576 million and a high of over \$1.3 billion in wage growth for Missouri workers. These estimates include direct impacts to workers making under the minimum wage as well as secondary impacts to workers whose wages are predicted to rise as a result of the minimum wage increases.

## IV. Estimate of state income and sales tax revenue

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<sup>6</sup> <https://laborcenter.berkeley.edu/the-public-cost-of-a-low-federal-minimum-wage/>



Based on the wage increase numbers above and the conclusion that minimum wage increases have no discernible impact on employment, we next calculate the impact of projected increases on state sales tax revenue and individual state income tax revenue for Missouri. As previously mentioned, we do not include estimates for local impacts, although we do project increased revenue there as local jurisdictions do capture sales tax revenue and in the case of the Kansas City and the City of St. Louis, increases in income are subject to the individual 1% earnings tax. We do not include any speculation of increased prices as a way to offset higher wages, although any such increase would result in higher sales tax revenue.

|                   | <b>Estimated sales tax revenue*</b> | <b>Estimated individual income tax revenue**</b> | <b>Total revenue</b> |
|-------------------|-------------------------------------|--------------------------------------------------|----------------------|
| <b>Proposal 1</b> | <b>\$8,738,808</b>                  | <b>\$24,367,615</b>                              | <b>\$33,106,423</b>  |
| <b>Proposal 2</b> | <b>\$16,302,112</b>                 | <b>\$45,457,412</b>                              | <b>\$61,759,524</b>  |
| <b>Proposal 3</b> | <b>\$11,712,965</b>                 | <b>\$32,660,864</b>                              | <b>\$44,373,829</b>  |
| <b>Proposal 4</b> | <b>\$18,528,314</b>                 | <b>\$51,665,035</b>                              | <b>\$70,193,348</b>  |
| <b>Proposal 5</b> | <b>\$10,434,123</b>                 | <b>\$29,094,895</b>                              | <b>\$39,529,018</b>  |
| <b>Proposal 6</b> | <b>\$18,380,525</b>                 | <b>\$51,252,936</b>                              | <b>\$69,633,462</b>  |
| <b>Proposal 7</b> | <b>\$12,920,268</b>                 | <b>\$36,027,354</b>                              | <b>\$48,947,623</b>  |
| <b>Proposal 8</b> | <b>\$20,397,748</b>                 | <b>\$56,877,834</b>                              | <b>\$77,275,582</b>  |

*\*State sales tax revenue is calculated by multiplying the estimated increase in wages by average annual Missouri General Revenue sales tax collections as a share of Missouri wages and salaries from 2015-2022 (or 1.515%)*

*\*\*Income tax is calculated by multiplying the estimated increase in wages by average Missouri net individual income tax collections as a share of Missouri wages and salaries from 2015-2022 (or 4.523%) less an expected 6.6% reduction in collections due to the recent reduction of Missouri's top income tax bracket to 4.95%.*

## **V. Other downstream impacts of higher wages**

Countless studies have also demonstrated the negative health impacts on adults and children of low wages as well as the negative impacts on child development, including academic achievement, of low wages. These situations often contain confounding variables that can make ascertaining cause and effect difficult, recent research using natural experiments to measure the direction of causation of the impact of public policies offers guidance for consideration. The research makes clear that “increases in parental income are found to lead to higher test scores and better educational outcomes for children, greater likelihood of employment in young

adulthood, and improved earnings<sup>7</sup>.” While the exact impact on state or local revenue is difficult to predict, research shows that the impact of higher wages on student academic achievement were four times higher per dollar increase as the effects found in a study of class size reductions that cost around \$12,000 per student<sup>8</sup>.” Direct impacts on state and local revenue, especially in the short term, are difficult to predict, but the growing body of research shows definite positive long term impacts on human development resulting from wage increases.

## **VI. Conclusion**

Overall we conclude that these petitions would generate a minimum net benefit to state general revenue of between thirty three and seventy seven million dollars with an undetermined net benefit for local revenue based on local considerations. This benefit is the direct result of the wage increases. Other savings are likely to accrue from a decrease in spending on safety net programs and a downstream benefit to the families of recipients of the wage increases. We submit this information in hopes that it can be useful in your determination of the fiscal impact of the proposed initiatives. Should you need any other information please do not hesitate to contact our office.

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<https://www.bostonfed.org/publications/community-development-discussion-paper/2021/the-downstream-benefits-of-higher-incomes-and-wages.aspx>

<sup>8</sup> [https://www.nber.org/system/files/working\\_papers/w21211/w21211.pdf](https://www.nber.org/system/files/working_papers/w21211/w21211.pdf)

The State Auditor's office did not receive a response from **Adair County, Boone County, Callaway County, Cass County, Clay County, Cole County, Jackson County, Jasper County, St. Charles County, Taney County, the City of Cape Girardeau, the City of Columbia, the City of Joplin, the City of Kirksville, the City of Mexico, the City of Raymore, the City of St. Joseph, the City of St. Louis, the City of Springfield, the City of Union, the City of Wentzville, the City of West Plains, Cape Girardeau 63 School District, Hannibal 60 School District, Malta Bend R-V School District, Mehlville School District, Wellsville-Middletown R-1 School District, State Technical College of Missouri, University of Missouri, Harris-Stowe State University, Lincoln University, Missouri State University, Missouri Western State University, Northwest Missouri State University, Southeast Missouri State University, Truman State University, the Kansas City Board of Police Commissioners, the Metropolitan Police Department - City of St. Louis, and the Clay County Board of Election Commissioners.**

### **Fiscal Note Summary**

State and local governments estimate no direct costs or savings from the proposal, but operating costs could increase by an unknown annual amount. State and local government tax revenue could change by an unknown annual amount depending on business decisions.