



January 24, 2022

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Elections Code 9005, we have reviewed the proposed statutory initiative related to the minimum wage (A.G. File 21-0043, Amendment #1).

Background

Federal, State, and Local Laws Set Minimum Wages. Federal and state laws forbid employers from paying their workers less than the minimum wage. (Self-employed people, including independent contractors, generally are exempt from minimum wage laws.) Federal law sets an hourly minimum wage of \$7.25 per hour. California’s minimum wage currently is \$15 per hour for employers with 26 employees or more. The state’s minimum wage is \$14 per hour for employers with 25 employees or fewer. This will increase to \$15 per hour on January 1, 2023. Some local governments have higher minimum wages.

Inflation Adjustments Scheduled Under Current Law. The prices of goods and services tend to rise over time. These rising prices are called “inflation.” Under current law, the state will adjust its minimum wage every year, starting in 2024. Each adjustment will reflect U.S. inflation, except in two cases:

- If inflation is negative, the adjustment will be zero.
- If inflation exceeds 3.5 percent, the adjustment will be 3.5 percent.

Governor May Postpone Minimum Wage Increases. Current law allows the Governor to postpone state minimum wage increases under some economic conditions. The Governor cannot postpone inflation adjustments.

Minimum Wage Changes Affect Other Laws. Some other laws about work and pay are based on the state minimum wage. For example, to be exempt from certain overtime pay laws, an employee must make at least double the minimum wage. Changes in the minimum wage affect these requirements.

Proposal

Annual Minimum Wage Increases Through 2026. The measure would increase the state minimum wage over several years. By 2026, the minimum wage would be \$18 for all workers. Figure 1 shows the proposed minimum wage in each year. As under current law, the Governor could postpone these increases under some conditions.

Figure 1

Proposed Minimum Wage

Year	Employers With:	
	26 Employees or More	25 Employees or Fewer
2022	\$15 per hour	\$14 per hour
2023	\$16 per hour	\$15 per hour
2024	\$17 per hour	\$16 per hour
2025	\$18 per hour	\$17 per hour
2026	\$18 per hour	\$18 per hour

Inflation Adjustments Starting in 2027. The state would adjust its minimum wage for inflation every year starting in 2027. These adjustments would follow the current rules described above.

Fiscal Effects

This section describes the fiscal effects of the \$18 per hour minimum wage.

Fiscal Effects Depend on Economic Effects. The measure could have a wide range of economic effects:

- **Higher Wages.** Workers who would have made less than \$18 per hour would instead make \$18 or more per hour by 2026. Some workers who already would have made more than \$18 per hour also likely would get a raise.
- **Likely Higher Prices.** The wage increases described above would increase costs for many businesses. These businesses likely would raise the prices they charge for the things they sell.
- **Likely Lower Profits.** The costs of higher wages likely would reduce businesses’ profits.
- **Likely Fewer Jobs.** The measure would make workers more expensive, so businesses likely would hire fewer of them. The state likely would have between 0 and 1 percent fewer jobs than it otherwise would.

Increased Government Costs to Pay for Workers. The state and many local governments would have higher costs to pay their employees. They also would have higher costs to pay for work done by workers who are not government employees. These costs likely would total a few billion dollars per year. (In the most recent fiscal year, total spending by California’s state and local governments was roughly \$500 billion.)

Savings From Lower Enrollment in Health and Human Services Programs. The measure would change the number of people enrolled in health and human services programs because it would change people's incomes. Many people would have higher incomes due to wage increases, but some likely would have lower incomes due to job losses. Overall, these enrollment changes likely would reduce state and local costs by hundreds of millions of dollars to over \$1 billion annually.

Changes in Tax Revenues. The measure would affect income tax and sales tax revenues.

- ***Income Tax Revenues.*** The state collects a personal income tax on income earned within the state, including wages and business owners' incomes. The measure would change income tax revenues because of its effects on wages, prices, and business owners' incomes.
- ***Sales Tax Revenues.*** The state and local governments collect a sales tax on retail sales of goods. The measure would change spending on taxed items because of its effects on incomes and prices.

Overall, whether the measure would make tax revenues go up or down is unclear. Revenue changes likely would be between a loss of a couple billion dollars and a gain of a few hundred million dollars. (In the most recent fiscal year, total state and local revenue from these taxes was roughly \$200 billion.)

Summary of Fiscal Effects. We estimate that this measure could have the following major fiscal effects on the state and local governments:

- Unclear change in annual state and local tax revenues, likely between a loss of a couple billion dollars and a gain of a few hundred million dollars.
- Increase in annual state and local government costs likely between half a billion dollars and a few billion dollars.

Sincerely,

for Gabriel Petek
Legislative Analyst

for Keely Martin Bosler
Director of Finance