



By Stephen Herzenberg and Mark Price¹

The Impact of Raising the Minimum Wage to \$10.10 on the State Budget

Raise the Wage PA (<http://raisethewagepa.org/>), a statewide coalition of community, labor, faith-based, and other organizations is urging the Pennsylvania General Assembly to raise the state's minimum hourly wage above the federal level of \$7.25 to \$10.10.

This *Policy Watch* estimates the impact of this proposed increase on the state budget. Specifically we estimate that a minimum wage increase will increase state tax revenues by \$121.5 million and generate another \$104 million in savings in reduced Medicaid spending.

Medicaid Expansion

Increasing the minimum wage pushes more families from the range in which the state pays nearly half the cost of Medicaid (48% in 2016) into the range in which – under the Medicaid expansion program – the federal government pays most or all of the cost.² More specifically, a minimum wage increase to \$10.10 per hour would shift an estimated \$104 million in Medicaid payments from the state to the federal government – that shift represents savings for the Pennsylvania General Fund budget.³

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² For incomes low enough to qualify for Medicaid even before Medicaid expansion, the share of Medicaid costs paid by the state and federal government each year can be found online at <http://kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/>

Personal Income and Sales and Use Taxes

The state would also benefit financially from a \$10.10 minimum wage increase because the resulting increase in wages and incomes would generate an estimated \$121.5 million more in state income and sales tax revenue.⁴

This estimate is based on Economic Policy Institute figures that show how the \$1.9 billion in total wage increases from a \$10.10 minimum wage would be spread across the family income distribution and on Institute for Taxation and Economic Policy estimates of the state income and sales tax rate on each part of the family income distribution.

Conclusion

Adding \$121.5 million in state tax revenue to the \$104 million in state Medicaid cost savings yields an estimated total of \$225.5 million in benefits to the state budget for the 2016-17 fiscal year.

Table 1.

New state revenue from an increase in the minimum wage to \$10.10 by July 2016
(figures are in millions of dollars)

Revenues/Savings	Fiscal Year 2016-17
Personal Income Tax	\$45.6
Sales and Use Tax	\$75.9
Medicaid Expansion	\$104.0
Total	\$225.5

Source: Keystone Research Center based on data from the Institute on Taxation on Economic Policy and the Center for American Progress

³ This \$104 million estimate is based on Rachel West and Michael Reich, *A Win-Win for Working Families and State Budgets: Pairing Medicaid Expansion and a \$10.10 Minimum Wage*, Center for American Progress and the Institute for Research on Labor and the Economy at U.C.-Berkeley, Appendix D, p. 30.

Pairing Medicaid Expansion and a \$10.10 Minimum Wage

⁴ Our estimates assume the minimum wage is increased to \$10.10 on July 1st 2016.