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Legislative Budget Office

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MEMO

TO: House of Representatives chairs and minority leads of committees to which HF 2 has been referred

Senate chairs and minority leads of committees to which SF 2 has been referred

FROM: Christian Larson, LBO Director

DATE: November 3, 2023

SUBJECT: Local Impact Note Request: HF 2/SF 2 (Richardson/Maye Quade) – Paid Family and Medical Benefits Employee Leave Impact on School Districts in Senate District 58

Enclosed is the local impact note for HF 2 (Richardson) – Paid Family and Medical Benefits Employee Leave. The request for this local impact note was made for the fiscal impact on school districts located wholly or partially within the boundaries of Senate District 58. The local impact note was requested by Representative Pat Garofalo as the ranking minority member of the House Ways and Means Committee.

The Legislative Budget Office (LBO) is charged with coordinating the development of local impact notes under Minnesota Statute 3.987. Local impact notes focus on the fiscal impact of proposed legislation on political subdivisions, understood to include local entities such as cities, townships, counties, and school districts.

The local impact note provides a summary of the bill, a description of the methodology used in the development of the note, and an analysis developed by the LBO regarding the estimated fiscal impact of HF 2 on school districts in Senate District 58. The local impact note is available electronically on the LBO website.

If you or your staff have any questions about the local impact note process, please contact LBO Coordinator, Kathryn Ho, at 651-297-7146.

cc: Senator Erin Maye Quade
Representative Ruth Richardson
Senate Fiscal Staff
House Fiscal Staff
LBO staff

Committee leadership receiving a copy of Local Impact Note:

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Senator Bruce Anderson
Senator Bobby Joe Champion
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Local Impact Note

2023-2024 Legislative Session

Minnesota Legislative Budget Office

House File 2 – Paid Family and Medical Benefits Employee Leave

Authors: Richardson; Hortman; Frazier; Noor; Hassan; Her; Stephenson; Cha; Reyer; Greenman; Kotyza-Witthuhn; Elkins; Hussein; Coulter; Bierman; Hemmingsen-Jaeger; Lillie; Sencer-Mura; Hollins; Pinto; Curran; Lee, K.; Rehm; Clardy; Pursell; Koegel; Moller; Edelson; Olson, L.; Xiong; Becker-Finn; Acomb; Tabke; Jordan

Date: November 3, 2023

Bill Description

House File 2 creates a new state family and medical benefit insurance program administered by the Minnesota Department of Employment and Economic Development (DEED) in coordination with the Minnesota Department of Labor and Industry (DLI). The program provides partial wage replacement for employees for various qualifying types of leave. The two primary types of leave are family leave and medical leave.

Family leave is provided to employees who are on leave to care for a family member with a serious health condition, to bond with a new child in their family, or for a family member with a qualifying exigency. Medical leave is for individuals on leave due to their own serious health condition.

To receive benefits, employees apply for leave benefits through DEED. A qualifying leave event is a single event that results in at least seven days of missed work. Eligibility is for a maximum of 12 weeks for either family or medical leave and up to an additional eight weeks if both types of leave are used, for a maximum of 20 weeks in a benefit year.

Benefits are paid from an account administered by DEED in the state special revenue fund. The program is funded through employer payroll premiums. Employers are required to pay a premium that is a percentage of each employee’s annual wages. Employers have the option to pass on up to half of the employer premiums to employees.

The premium rate for the program’s first year is set at 0.7 percent of eligible employee wages for family and medical leave. The employer premium rate will be adjusted annually based on aggregate statewide usage of the program. The annual employer premium rate cannot exceed 1.2 percent of taxable wages. Employers can opt out of part or all of the program if they can provide the same level of benefits to their employees through a private plan. Employers who opt out will be charged between $250 and $1,000 upon initial application of the private plan and any time they apply to amend their private plan.

Employees will be eligible to receive benefits on January 1, 2026, and premiums will start to be collected from employers on the same date.

Methodology

The Legislative Budget Office (LBO) identified four main direct fiscal impacts associated with the implementation of HF 2 - Paid Family and Medical Leave (PFML). These include:

- Employer Premiums
- Replacement Cost of Employees on Leave
- Administrative Costs
- Employer Savings

Per the request, this local impact note is for the school districts that are located wholly or partially within the boundaries of Senate District 58. This note is written to the version of the PFML language that was passed into law in the 2023 session. The local impact note request was for HF 2 which was passed by both bodies and signed into law as 2023 Minnesota Session Law, Chapter 59.

Employer premiums are contributions paid from employers to the state for the newly established PFML program. The employer premium calculation factors in the Small Business Wage Exclusion, a premium reduction for employers with fewer than 30 employees. Replacement cost of employees on leave refers to wages for replacement employees or overtime costs, while administrative costs refer to the cost of implementing and administering the PFML program. Employer savings will occur when wages currently paid to employees on eligible PFML leave will be covered through the PFML benefit account administered by DEED. In an attempt to estimate the impact of the four main direct fiscal impacts, the LBO sent out a survey to the school districts in Senate District 58. The LBO partnered with the Minnesota School Boards Association to distribute the data request to their members. Where available, the wage data used in the following analysis came directly from the school district in a survey response. For districts that did not respond to the survey, the LBO also utilized school district employee count and wage data obtained from state agencies. In addition, the LBO performed a literature review of paid family and medical leave practices of existing programs and reviewed state and federal data on other family and medical leave programs.

Local Government Employer Data

The Public Employees Retirement Association (PERA) maintains employment and wage data for non-licensed (non-teacher or administrator) school district employees. PERA data contains the number of members (employees) and total salaries per entity. It details the total number of people employed at an entity each year for any amount of time. The data obtained from PERA is from 2022.

The Professional Educator Licensing and Standards Board (PELSB) data contains employee count and salary data for licensed school employees (teachers and administrators). It is collected from school districts and provides data for a specific point in time. The data obtained from PELSB is from October 2022.

The two data sets were combined to get a district-wide total wage amount. To do this, using the PELSB data, the average teacher or administrator salary per school district was multiplied by the number of unduplicated licenses of each type at each district to get a total licensed wage amount per district. Then, from the PERA data, the number of members (non-licensed staff) and their salary was combined with the total licensed wage amount per district, resulting in the 2022 total wages and employees per district.

The 2022 wages were then multiplied by an annual inflation factor of 3.1 percent based on Quarterly Census of Employment and Wages (QCEW) data to arrive at an estimated 2026 and 2027 wage base.[1] The premium rate set in HF 2 for the first year of the program was applied to the estimated wage base for 2026 and 2027 based on the effective dates in the bill. None of the school districts in Senate District 58 were eligible for the small business exclusion, which lowers the premiums charged to employers with 30 or fewer employees.

The wages subject to premiums in HF 2 are capped at wages subject to the FICA Old-Age, Survivors, and Disability Insurance tax. In 2022, this wage amount was $147,000, with the amount automatically updated each year based on the national average annual wage.[2] The data used for this analysis did not allow for a determination of wages subject to premiums, as it did not provide individual employee wages. Given this, the following analysis assumes the premium rate for the PFML program will apply to all wages for local units of government.

Survey

Questionnaires and subsequent data requests were sent to the Senate District 58 school districts to collect wage and employee leave information from 2019 to 2022.

The LBO partnered with the Minnesota School Boards Association to distribute the original data request to their members. Three school districts responded. A follow up data request sent directly to districts yielded a higher response rate. The second data request asked for the total 2022 salaries paid by the district. In total, six of the 13 school districts in Senate District 58 responded to one or both requests for data. For these six districts, district-provided data was used for the baseline 2022 wage data. For districts that did not provide a response, the calculated wage data from PERA and PELSB was used as the baseline 2022 data. The LBO did not use the data obtained in the data requests to estimate other, non-premium, costs to the program. District-reported data varied from the LBO-calculated data with some data from the school districts above the LBO calculated wage estimates and some below.

Literature Review and Data from Other States

The LBO reviewed publicly available data from other state PFML programs, U.S. Department of Labor Family and Medical Leave Act surveys, academic journals, professional organization reports, and white papers on the impacts of paid family and medical leave programs. The LBO searched for data related to usage levels, useful trends on the fiscal impact on employers (especially local units of government), and other relevant information.

In reviewing data from other states, the LBO found that 18 states have PFML programs enacted, including Minnesota. Almost all these programs include the following: partial funding by employees (at minimum), partial wage replacement for qualified leave, the same leave categories allowed under the Family and Medical Leave Act, leave duration limitations within a 12-month period, and annually updated contributions and maximum benefits.[3]

Of the 18 state programs, ten are not yet effective or just became effective.[4] Of the eight states with effective programs, three were chosen by the LBO to perform a comprehensive review: California, Massachusetts, and Washington State.

California

In 2002, California was the first state in the country to pass a PFML program. The program provides California employees with paid leave benefits to care for a sick family member, bond with a child, and other qualifying military events. The PFML program is a component of the state's disability insurance, both of which are financed through employee payroll deductions.[5]

Program metrics have been tracked from when the program first became effective to the present. From calendar year 2004 to 2020, claims data shows an upward trend of claims filed. It is important to note the current population in California is 39.03 million[6] compared to Minnesota's 5.7 million.[7]

While the number of claims in Minnesota cannot be predicted based on those in California, the data trends are informative. Claims increased between one and nine percent for most years (starting the program's first full year in 2005). The average weekly benefit amount in Fiscal Year (FY) 2020 was $774, with an average of 6.67 weeks per claim. In FY2021, the average weekly benefit amount was $806, with an average of 7.07 weeks per claim.[8]

Massachusetts

Massachusetts has a population of 6.985 million (compared to Minnesota's 5.7 million) and provides a closer comparison point for PFML programs. The Massachusetts PFML program became effective in January 2021; data is available through FY2022. In the program's first full year, FY2022, 112,531 claims were approved, with a total payout of $602.8 million. During FY2022, the average weekly benefit was $793.55 for family leave and $754.84 for medical leave.

The program provides a total of 26 weeks of leave. Up to 12 weeks of family leave and up to 20 weeks of medical leave can be claimed. The median leave taken in FY2022 was 12 weeks for both medical and family leaves. Medical leaves accounted for approximately 60 percent of those taken, and bonding leave accounted for approximately 30 percent. Of all the claims submitted, less than 20 percent were denied.[9]

The program is funded by employee and employer contributions. Employer contributions are required when an employer has 25 or more employees and only if the employer does not have a private or self-insured plan paying the same or equal benefits. For the 2022 calendar year, contributions equaled 0.68 percent of eligible wages comprised of the employee and employer share. For calendar year 2023, the premium rate was adjusted to 0.63 percent for the combined employer and employee share.[10]

Washington State

Another state that provides a strong comparison point for Minnesota is Washington, whose population is 7.786 million.[11] The program began collecting premium assessments in 2019, and benefits were first distributed in 2020. The program provides 16 weeks of leave, allowing up to 12 weeks of family leave and 12 weeks of medical leave to be claimed by a qualified employee.[12]

In the first year of distributing benefits, nearly 170,000 claims were filed, which was 12,000 more than originally anticipated. This could be due to the global pandemic, as well as a successful advertising campaign and effective communication to employees and employers. As a result of the high demand for benefits and low staffing levels at the agency administering the benefit on the state level, benefit processing delays occurred. Although more claims than anticipated were made, most benefit recipients did not take the maximum amount of leave. In the second year of the program (FY2021), the average leave length was 7.4 weeks.[13]

The benefit is funded by employers and employees. The premium deduction was 0.6 percent of gross wages for calendar year 2022. For the 2023 calendar year, the premium rate was adjusted to 0.8 percent. Employers contribute roughly 27 percent and employees contribute 73 percent of the premiums.[14] Employers with less than 50 employees are excluded from the employer contribution requirement.[15]

Further information obtained during the literature review is included in the Analysis section.

Analysis

The LBO identified four main direct fiscal impacts on school districts, each resulting from school districts being employers. Three of those impacts represent new costs to employers: employer premiums, replacement costs of employees on leave, and administrative costs. The final fiscal impact identified for school districts is a savings resulting from employees on leave receiving their wages or partial wages from the state PFML fund as opposed to being paid by the school district.

This local impact note provides an estimate of the employer premiums paid by school districts. Due to a limitation in the data, other fiscal impacts cannot be estimated and are not included. A discussion about the possible fiscal impacts follows for each of the four fiscal impacts identified.

Employer Premiums

The LBO analyzed data available from state government entities to provide an estimate for employer premiums. Given the effective dates of the bill, premiums are shown by school district and the Senate District 58 total for years 2026 and 2027. The estimate uses wages based on 2022 wage data with an applied estimated wage increase based on 10-year compound annual growth rates for local government wages in Minnesota. The growth rate applied to wages for the analysis was 3.1 percent year-over-year, based on QCEW data.[16]

The following analysis provides cost estimates for the Senate District 58 independent school districts (ISD) at the 0.35 percent employer premium rate and the premium rate of 0.7 percent. Employer premium estimates for the Senate District 58 school districts are provided in tables 4 and 5.

Table 1. Total Employer Premium Amounts – 0.35 Percent Contribution

District Name	2026 - Premium Amount	2027 Premium Amount
Cannon Falls ISD 252	$30,106	$31,040
Faribault ISD 656*	$119,180	$122,875
Farmington ISD 192*	$ 220,679	$227,520
Hastings ISD 200*	$131,057	$135,120
Inver Grove Heights ISD 199	$125,719	$129,616
Jordan ISD 717*	$59,154	$60,987
Kanyon-Wanamingo ISD 622	$20,500	$21,136
New Prague Area Schools ISD 721	$136,239	$140,463
Northfield ISD 659*	$154,601	$159,393
Prior Lake-Savage ISD 719	$262,503	$270,641
Randolph ISD 195*	$18,629	$19,207
Rosemount-Apple Valley-Eagan ISD 196	$1,143,295	$1,178,737
Tri-City United ISD 2905	$55,916	$57,649
Senate District 58 Total	**$2,477,579**	**$2,554,384**

* The baseline 2022 wage data for these districts comes from survey responses submitted by the districts. The baseline 2022 wage data for all other districts is calculated from PERA and PELSB data.

Table 2. Total Employer Premium Amounts – 0.7 Percent Contribution

Employer Name	2026 Premium Amount	2027 Premium Amount
Cannon Falls ISD 252	$60,213	$62,079
Faribault ISD 656*	$238,361	$245,750
Farmington ISD 192*	$441,357	$455,039
Hastings ISD 200*	$262,114	$270,240
Inver Grove Heights ISD 199	$251,438	$259,232
Jordan ISD 717*	$118,307	$121,975
Kenyon-Wanamingo ISD 622	$41,001	$42,272
New Prague Area Schools ISD 721	$272,479	$280,925
Northfield ISD 659*	$309,202	$318,787
Prior Lake-Savage ISD 719	$525,007	$541,282
Randolph ISD 195*	$37,258	$38,413
Rosemount-Apple Valley-Eagan ISD 196	$2,286,590	$2,357,475
Tri-City United ISD 2905	$111,831	$115,298
Senate District 58 Total	**$4,955,157**	**$5,108,767**

* The baseline 2022 wage data for these districts comes from survey responses submitted by the districts. The baseline 2022 wage data for all other districts is calculated from PERA and PELSB data.

Replacement Cost of Employees on Leave

There is an indeterminant expense to school districts to temporarily replace employees on a qualifying leave. Sufficient data and research are not available regarding current and future leave usage; therefore, the LBO does not attempt to estimate replacement costs. However, information regarding teacher replacement rates, existing research on similar legislation, and the HF 2 fiscal note provide useful context when considering the potential cost.

Replacement costs will vary by employer and employee type. Employers may replace employees with temporary employees, use overtime with existing employees, or adjust employee workloads with a temporary work-out-of-class assignment. Alternatively, employers may adjust workloads to accomplish all essential work without incurring additional cost.

Information is most readily available for the temporary replacement of a teacher taking leave. According to PELSB, the average cost of a substitute teacher in Minnesota is estimated to be $200 per day. A teacher may also be replaced by existing staff by having teachers cover a class period on their prep time. School districts may be able to retroactively see the change in cost from the legislation by comparing leave usage in past years to leave usage in years after the implementation of the PFML program.

While it is safe to assume teachers would be replaced with temporary employees in the form of substitute teachers in many cases, such assumptions are harder to make for other types of school district employees. A Society for Human Resources Management (SHRM) study found that approximately 20 percent of absences were covered by replacement workers in 2013.[17] It is of note that this study was not exclusive to the Family and Medical Leave Act (FMLA) qualifying leave but provides a basis for a general understanding of replacement rates. A California study states that employers report 96.6 percent of the work of exempt employees and 63.3 percent of the work of non-exempt employees on leave is covered by other current staff members.[18] This study is specific to California's Paid Family Leave program.

There is substantial research available related to the FMLA. While the FMLA does not provide paid leave, it does offer job-protected leave for similar purposes. The United States Department of Labor (USDOL) has tracked leave usage since the FMLA's enactment in 1993 by surveying employees and worksites. The surveys were completed in 1995, 2000, 2012, and most recently in 2018. Leave usage rates have remained stable since 1995 at 12 to 15 percent of employees per year taking leave for a qualifying FMLA reason. PFML benefits could follow a similar trend, with stable usage rates following implementation. The same 2018 survey also found that 42 percent of employees receive full pay, and 24 percent receive partial pay during their FMLA-covered leaves. Thirty-four percent of employees receive no pay during their leave.[19]

A final consideration for replacement rates can be found in the HF 2-4A fiscal note produced by DEED. DEED utilized the USDOL Worker Paid Leave Usage Simulation (Worker PLUS) model to estimate potential usage rates directly correlated with replacement costs. The simulation used uptake rates from Washington State's PFML program, national leave-taking behavior from the federal FMLA survey, and demographic information from the American Community Survey (ACS) and concluded the following:

Table 3. Usage Rates per 1,000 Covered Employees[20]

Own Health	Maternity	Bonding	Family Care
23.70	6.26	20.19	7.16

While Washington State has the PFML program most like Minnesota's, not all the variables that Washington State reports in its usage reports are inputs to the Worker PLUS model.

While expected leave data is available from various sources, as discussed above, in order to calculate an estimate of the fiscal impact on local units of government for replacement costs, the marginal change from current leave rates of employees to a predicted future leave rate would be needed. Because the LBO could not identify a defendable marginal change in the expected leave of employees after the enactment of the PFML program, no estimate is provided.

Administrative Cost

School districts may incur administrative costs when implementing the PFML program. While the LBO survey and research regarding administrative costs are not sufficient for generalization, a discussion is provided to inform the conversation.

Survey

Three Senate District 58 school districts responded to the initial LBO data request, which included questions regarding anticipated costs for implementation and ongoing costs to administer the PFML program. All three responding districts indicated some level of administrative costs would be required to implement the program. The amount of said costs varied from 0.25 to 1.65 full-time equivalents (FTE).

Research

Available research primarily focuses on the administrative cost to a state to implement a PFML program; however, some costs described could inform local entities, including school districts and businesses. Additionally, these costs are similar to those mentioned in the LBO survey responses.

The U.S. Department of Labor released "A Review of the Administrative Costs of Establishing a State Paid Family and Medical Leave Program" in 2021.[21] States with programs currently implemented were reviewed to identify and compare administrative costs. These costs were divided into two categories: startup costs and ongoing administrative costs. Data is not widely available for the typical administrative cost to an employer and may vary based on current capacity among employers.

Savings

Savings for school districts were identified resulting from the PFML program. Most entities currently offer a combination of paid vacation, sick time, short-term disability, or similar benefits, which are funded in full or in part by the employer.

Employers may choose to reduce, eliminate, or change the current benefits when the PFML is implemented. Whether the employer benefits change or remain the same, it is also possible that employees will opt for using the PFML benefit (if eligible) rather than a paid time off benefit offered by the employer. In either case, this would result in savings for the employer by not directly paying the employee's full wages on leave.

According to a survey of Californians on Paid Family Leave, 60 percent of employers stated they coordinated benefits with the state Paid Family Leave program. This would likely result in cost savings for the employer, who may have previously covered all or part of the cost through employer-paid leave benefits.[22]

Local units of government could calculate savings based on leave costs incurred before and after the implementation of the program. If the entity chooses to change current benefits, this would also be factored into the employer's cost savings. Although important to consider, these potential savings may not exist for every local unit of government. Given the lack of complete data related to possible savings generated from implementing the PFML program, including various aspects of negotiated labor contracts, this local impact note does not include an estimate.

Summary

The LBO collected data related to the PFML program to conduct an analysis and identify the direct fiscal impact on school districts in Senate District 58. The LBO used both data obtained from districts and an analysis of PERA and PELSB wage data to estimate HF 2 impacts on the school districts in Senate District 58.

The LBO identified the PFML program will have a cost to the school districts in the form of employer premiums. The initial premium rate of 0.7 percent of eligible wages would result in an estimated $10.06 million in employer premiums from these school districts in the 2026-2027 biennium. The bill allows for half of employer premiums to be passed on to employees, which means that $5.03 million could be passed on to employees of these school districts in the 2026-2027 biennium.

In addition to employer premiums, other direct fiscal impacts should also be considered for local government entities, including school districts. Costs include the replacement cost of employees on leave and one-time and ongoing administrative costs. Local units of government will also likely realize savings due to the state PFML fund paying partial wages to employees that, in some cases, are currently paid by employers.

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[22] Society for Human Resource Management, 5.

Appendix A

Survey for School Districts – SF2/HF 2 Local Impact Note (Example only, no data in tables)

Enter the number of employees, total hours, and total salary for each type of school worker:

Calendar Year	# Total Number of Teachers	$ Total Salary for Teachers	# Total Number of Administrators	$ Total Salary for Administrators	# Total Number of Hourly Employees	$ Total Salary for Hourly Employees
2019						
2020						
2021						
2022						

Enter the number of employees taking leave and the number of total days of leave taken:

Calendar Year	# Number of Days of Leave Taken	# Number of Days leave taken for at least seven consecutive days
2019		
2020		
2021		
2022		

If you track type of leave for employee by type of FMLA leave, please complete the following section.
If you do not, please check this box and continue→: ☐
Enter the number of employees taking the type of leave indicated, and the number of days taken for that type of leave.
In the last two columns, enter the total number of employees for each category of replacement:

Calendar Year	# Number of Employees Taking Bonding Leave	# Number of Days Taken	# Number of Employees Taking Leave for Personal Health	# Number of Days Taken	# Number of Employees Taking Leave to Care for the Health of a Loved One	# Number of Days Taken	# Number of Employees Taking Safety Leave	# Number of Days Taken	# Number of Employees Taking Exigency Leave	# Number of Days Taken	# Total Number of Employees Replaced While on Qualified Leave	# Total Number of Employees Paid Overtime or Stipend to Replace Employees While on Qualified Leave
2019												
2020												
2021												
2022												

If you track the costs to replace workers through temporary employees, overtime, or stipends, please respond below.
If you do not, please check this box:→ ☐
Enter the actual cost paid for the replacement of staff on qualified leave:

Calendar Year	$ Actual Cost for Those Replacing Workers on Qualified Leave	$ Actual Cost for Those Paid Overtime or Stipend to Replace Employees on Qualified Leave
2019		
2020		
2021		
2022		

Enter the number of additional FTEs you estimate needing to administer the Paid Family Medical Leave program (please include a brief description of costs in comments section below):

Enter the estimated additional Information Technology (IT) costs to administer the Paid Family Medical Leave program (please include a brief description of costs in comments section below):

Estimate any other direct* costs associated with administering the Paid Family Medical Leave program not included in this request for data (please include a brief description of costs in comments section below):

**Direct costs are costs directly attributable to the implementation of the proposed legislation. (As opposed to indirect costs that may result from implementation.)*

Please briefly comment on the costs listed above. Include information your organization would like to share about any costs related to implementing the Paid Family Medical Leave program as it relates to your district.