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MEMO

TO: Senate chairs and minority leads of the Jobs and Economic Development committee and Finance committee

House of Representatives co-chairs of the Workforce, Labor, and Economic Development Finance and Policy committee and Ways and Means committee

FROM: Christian Larson, LBO Director

DATE: May 1, 2025

SUBJECT: Updated estimate for Paid Family and Medical Benefits Employee Leave Local Impact Note (August 10, 2023)

Enclosed is an addendum to the local impact note prepared for Senate File 2 (2023) – Paid Family and Medical Benefits Employee Leave. The addendum includes updated local government employer premium estimates based on current premium rates and employer data from the Public Employees Retirement Association and Minnesota Professional Educator Licensing and Standards Board. The Legislative Budget Office (LBO) also requested fiscal impact updates from select local units of government that participated in the 2023 local impact survey of Senate File 2. This analysis was prepared at legislator request and after the LBO determined that there was sufficient data available to update the estimates included in the original local impact note.

The LBO is charged with coordinating the development of local impact notes under Minnesota Statute 3.987. Local impact notes estimate the fiscal impact of proposed legislation on cities, counties, and school districts.

If you or your staff have any questions about the local impact note process, please contact LBO Lead Analyst, Joel Enders, at 651-284-6542 or joel.enders@lbo.mn.gov.

cc: Senator Alice Mann
Senator Erin Maye Quade
Representative Cedrick Frazier
Senate Fiscal Staff
House Fiscal Staff
LBO staff

Local Impact Note Update

2025-2026 Legislative Session
Minnesota Legislative Budget Office
May 1, 2025

Updated Estimate for Paid Family and Medical Benefits Employee Leave Local Impact Note (August 10, 2023)

Summary

The following addendum provides updated local government employer premium estimates based on current premium rates and employer data from the Public Employees Retirement Association (PERA) and Minnesota Professional Educator Licensing and Standards Board (PELSB). The Legislative Budget Office (LBO) also requested fiscal impact updates from select local units of government that participated in the 2023 local impact survey of Senate File 2. While these responses and LBO research regarding administrative costs are not sufficient for generalization, a brief discussion is provided below.

Local impact notes can be requested by the chair or the ranking minority member of either legislative Tax, Finance, or Ways and Means committees. The original local impact note for Senate File 2 (Minnesota Laws 2023, Chapter 59) can be found at https://www.lbo.mn.gov/fn/localimpact.html. For the purposes of this analysis, local governments include cities, counties, school districts, and townships.

Employer Premiums

The LBO used PERA and PELSB data to provide an estimate of employer premiums for calendar and fiscal years 2026 through 2029. Employer premium amounts are shown for the minimum employer contribution rate (0.44 percent for CY 2026-2028, 0.465 percent for CY 2029) and the full contribution rate (0.88 percent for CY 2026-2028, 0.93 percent for CY 2029) anticipated by the Department of Employment and Economic Development (DEED).[1] Local units of government with less than 30 employees may be eligible for a reduced contribution rate and employer contribution amount. Premiums are shown by city, county, school district, and township. The estimate uses 2024 wage data with an applied estimate wage increase based on 10-year compound annual growth rates for local government wages in Minnesota. The growth rate applied to wages for this analysis was 3.6 percent year-over-year, based on U.S. Bureau of Labor Statistics data.[2]

Table 1. Total Employer Premium Amounts – Assumes Minimum Employer Contribution Amount – Calendar Year

Employer	CY26 Premium Amount	CY27 Premium Amount	CY28 Premium Amount	CY29 Premium Amount
City	12,554,884	13,006,860	13,475,107	14,753,404
County	15,864,517	16,435,640	17,027,323	18,642,597
School	45,974,797	47,629,890	49,344,566	54,025,571
Township	31,007	32,123	33,280	36,437
Statewide Local Government Total	**74,425,206**	**77,104,513**	**79,880,275**	**87,458,009**

[1] Current projected contribution rates are shown on page 10 of the most recent Milliman actuarial analysis, available online at https://www.leg.mn.gov/docs/2024/other/240787.pdf.
[2] U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages, https://www.bls.gov/cew/.

Table 2. Total Employer Premium Amounts – Assumes Employer Pays Entire Contribution Amount – Calendar Year

Employer	CY26 Premium Amount	CY27 Premium Amount	CY28 Premium Amount	CY29 Premium Amount
City	25,920,532	26,853,672	27,820,404	30,459,548
County	31,729,035	32,871,280	34,054,646	37,285,194
School	91,966,135	95,276,915	98,706,884	108,070,578
Township	124,028	128,493	133,119	145,747
Statewide Local Government Total	**149,739,729**	**155,130,360**	**160,715,053**	**175,961,067**

Table 3. Total Employer Premium Amounts – Assumes Minimum Employer Contribution Amount – State Fiscal Year

Employer	FY26 Premium Amount	FY27 Premium Amount	FY28 Premium Amount	FY29 Premium Amount
City	6,277,442	12,780,872	13,240,983	14,114,255
County	7,932,259	16,150,079	16,731,482	17,834,960
School	22,987,399	46,802,344	48,487,228	51,685,069
Township	15,503	31,565	32,701	34,858
Statewide Local Government Total	**37,212,603**	**75,764,859**	**78,492,394**	**83,669,142**

Table 4. Total Employer Premium Amounts – Assumes Employer Pays Entire Contribution Amount – State Fiscal Year

Employer	FY26 Premium Amount	FY27 Premium Amount	FY28 Premium Amount	FY29 Premium Amount
City	12,960,266	26,387,102	27,337,038	29,139,976
County	15,864,517	32,300,157	33,462,963	35,669,920
School	45,983,067	93,621,525	96,991,900	103,388,731
Township	62,014	126,260	130,806	139,433
Statewide Local Government Total	**74,869,865**	**152,435,045**	**157,922,706**	**168,338,060**

Small Employer Premium Rate

Employers with 30 or less employees and an average wage that is less than or equal to 150 percent of the state's average wage in covered employment are eligible for the small employer premium rate (SEPR).[3] The premium rate for eligible employers is 75 percent of the standard premium rate (0.66 percent). Eligible employers must pay a minimum of 25 percent of the premium amount instead of 50 percent under the standard rate.

*Table 5. Small Employer Premium Rate Eligibility**

Employer	Ineligible	Eligible	Total
City	198	567	765
County	87	0	87
School	352	5	357
Township	0	355	355
Total	**637**	**927**	**1564**

*Counts are based on PERA data. Totals may differ slightly from the local impact analysis of Senate File 2 (2023) due to minor year-to-year reporting variance.

[3] Minnesota Statutes 2025, section 268B.14, subdivision 5a, https://www.revisor.mn.gov/statutes/cite/268B.14#stat.268B.14.5a.

Other Fiscal Effects

The original local impact note from 2023 discusses three other likely fiscal effects of the paid leave law on local units of government beyond premiums paid. These include:

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

A more robust discussion of these fiscal effects is included in the original analysis. To provide an update to this analysis, the LBO held phone calls with a select group of respondents (four cities, three counties, and four school districts) from the original survey conducted in 2023. The cities, counties, and school districts were asked questions about these possible fiscal effects from the implementation of the Minnesota Paid Leave Program. Given the small sample included in this follow-up to the 2023 local impact note, the following should be considered as anecdotal and used as an example of the experience of local units of government as it relates to the Minnesota Paid Leave Program. The response should not be considered comprehensive to all cities, counties, and school districts in Minnesota.

Generally, responses received to the follow-up questions were in line with the survey responses from 2023. Most local units of government have not generated an impact estimate at this time but have been considering and preparing for possible impacts. Some suggested that it will not be possible to know the impact until the program is operational.

Replacement Costs for Employees on Leave

Local units of government are planning for some higher levels of replacement costs for employees on leave resulting from the Minnesota Paid Leave Program. The expectation that replacement costs would be incurred varied between cities, counties, and school districts. School districts expressed the highest level of need to replace employees, anticipating that teachers and possibly other student-facing positions would need to be replaced with substitute or temporary employees when employees took a qualifying leave. Cities and counties also stated that certain types of employees would need to be covered, such as public safety positions (police, fire, corrections), some social work positions, some nursing positions, and other positions that require a staffing minimum (e.g. librarians).

For the most part, local units suggested that other types of positions would manage the additional work associated with employees on leave by sharing duties among existing staff. Two of the respondents explained they are considering hiring additional permanent staff to better absorb the leave that may be taken by employees. One respondent mentioned they were considering hiring additional staff already as they have seen a substantial change in Family and Medical Leave Act qualifying leave since the COVID-19 pandemic.

One public school estimated an additional $50 thousand in costs associated with the Minnesota Paid Leave program. This estimate included the cost to replace employees on leave and any additional liability for leave payout that may result from employees using the paid leave from the program as opposed to other forms of paid leave from the employer (vacation, sick, paid time off).

Administrative Costs

Respondents to the follow-up questions posed for this local impact note update had varying responses to questions related to costs to administer the Minnesota Paid Leave Program. Most have not estimated a cost associated with the administration of the program and suggested that it will not be known until the program is operational. Some suggested they would absorb any additional administrative work within their current staff. Others stated they are considering additional staffing, although they would be considering additional administrative support for human resource and payroll related duties regardless of the Minnesota Paid Leave Program. They highlighted that the Minnesota Paid Leave Program would add to the duties required of these offices. One outer-ring suburb school district did estimate they would have approximately $200 thousand in additional administrative costs to support the implementation of the Minnesota Paid Leave Program.

One county explained that although they have not estimated an impact at this time, they do see a level of effort required that will be more than negligible. They expect more communication with state agency staff and also with employees. They also see more education and communication needed to make sure their staff understand the program. A couple of respondents stated they are considering a private plan. This would result in some additional administration for the employers as they look to manage their private plan and to make sure they are working appropriately with the state.

Most of the respondents to the follow-up questions did not anticipate information technology (IT) costs beyond standard maintenance or minimal updates to current systems. A few did suggest there may be costs associated with IT updates, with one group stating they anticipate around $2 thousand in costs and another stating they are considering purchasing software to manage paid leave that would cost around $50 thousand.

Employer Savings

No employer that was included in the follow-up questions to the 2023 survey for the original Minnesota Paid Leave Law fiscal note estimated any savings from the program. The LBO assumes that some savings may be realized by employers as employees on leave will receive wage replacement from the state paid leave program rather than receive wages through paid leave from their employer while they are out on a qualified leave. Employers included in the follow-up questions to the 2023 survey had not calculated any potential savings and suggested the net impact will be a cost to the organization.