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FISCAL IMPACT REPORT

SPONSOR SPAC **ORIGINAL DATE** 02/11/14
LAST UPDATED 02/17/14 **HB** _____

SHORT TITLE State Minimum Wage & Annual Increases **SB** 319/SPACS

ANALYST Daly

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	>\$2,805.9	>\$3,133,6	>\$5,939.5	Recurring	Various

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with HB 213, HB 275, HJR 9, SB 285, SB 322, and SJR 13

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)

Economic Development Department (EDD)

Workforce Solutions Department (WSD)

State Personnel Office (SPO)

SUMMARY

Synopsis of Bill

The Senate Public Affairs Committee substitute for Senate Bill 319 raises the minimum wage to \$10.10 per hour for all state employees as well as employees of contractors with state contracts valued at \$60,000 or more which take effect on or after July 1, 2014. This new minimum wage rate would be increased annually to reflect any increase in the cost of living.

That increase is measured by referencing the consumer price index for all urban consumers published by the U.S. Department of Labor (CPI-U) each February, with a percentage increase to minimum wages corresponding to the percentage increase in the index over the preceding 12-month period. The minimum wage rate shall not be adjusted downward as a result of a decrease in the cost of living.

The effective date of this bill is July 1, 2014.

FISCAL IMPLICATIONS

SPO reports that the initial cost of raising 766 state employees to \$10.10 per hour effective July 1, 2014, including the increase in the cost of state paid mandatory benefits at 26.24 percent is \$2,804,897 for FY 15. SPO estimates the cost to raise the salary of state employees for FY 16 is approximately \$3,133,200.

- FY15 – \$10.10/hour or \$2,804,900 with benefits (26.24 percent benefit factor)
- FY 16- \$10.26/hour or \$327.8 thousand with benefits in addition to FY 15
 - (10.10 x 1.58 percent, cost of living adjustment)

SPO's estimates are reflected in the table above.

DFA projects slightly different increases: based on Moody's forecasts for CPI, wages may be increased to the following amounts in future years:

- a. FY16: \$10.24
- b. FY17: \$10.60
- c. FY18: \$10.86
- d. FY19: \$11.10
- e. FY20: \$11.33

Additionally, WSD estimates a fiscal impact of \$1 thousand for updating wage claim forms and maintenance of its website for current minimum wage rates. The numbers set out in the table above include this cost in FY 15. Further, although WSD reported it currently has four employees who earn less than the rate set in the bill, which would result in a \$1,200 impact for the first fiscal year, since the department is predominantly federally funded, the increase would only impact those funds.

Payments to state contractors will likely increase over time as a result of the application of the minimum wage set in this bill to employees of contractors performing services for the state on contracts over \$56 thousand. This amount is indeterminate at this time, and is represented in the table above by the ">" sign.

SIGNIFICANT ISSUES

LFC staff has identified two significant implementation issues arising from the provisions of this substitute bill. First, given the bill's effective date of July 1, 2014, an appropriation sufficient to cover the fiscal impact of the increase in minimum wage for state employees to \$10.10 needs to be included in the General Appropriation Act of 2014; otherwise, agencies will have to fund this increase out of their appropriated budgets. Second, in order to get the cost of living compensation increases required by this bill into the budget process, pegging the annual increase to the percentage increase of the CPI-U as of February of the current year is too late. To ensure sufficient appropriated budgets, using a twelve-month look back period ending in July of the calendar year prior to the implementation date of each increase is suggested. This would allow budget submissions to include calculations for CPI-U increases.

WSD points out that the \$60 thousand threshold for application of the \$10.10 minimum wage to state contractors is the same level set in the Public Works Minimum Wage Act. Sections 13-4-

10 through 13-4-17, NMSA 1978, see section 13-4-11(A) in particular.

WSD reports that the current minimum wage rate in New Mexico is \$7.50 per hour, which is greater than the federal minimum wage. State minimum wage rates are controlled by the respective legislatures within the individual states. The Fair Labor Standards act sets a federal minimum hourly rate (\$7.25 per hour since 2009) for non-exempt employees, but states may enforce higher pay rates. If an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the higher of the two minimum wages.

WSD advises that if New Mexico's minimum wage for affected employers increased to \$10.10 per hour, this would reflect approximately a 35 percent increase of the current minimum wage. New Mexico would have the highest minimum wage in the country with respect to the affected employers. WSD also notes that none of New Mexico's neighboring states (Colorado, Utah, Arizona, Texas and Oklahoma) have minimum wage rates specific to state employees.

SPO reports that the Economic Policy Institute released a report in December, 2013 with a state-by-state breakdown of the characteristics of workers that would be affected by a federal minimum wage increase to \$10.10 by 2016 (<http://s2.epi.org/files/2013/minimum-wage-state-tables.pdf>). Of the New Mexico population, a federal increase would affect nearly 21.8 percent of working women and 16.0 percent of working men. The age group that would benefit the most is those less than 20 years old, with 24.3 percent of the affected population being Hispanic, 13.1 percent white, non-Hispanic, 19.2 percent Asian, and 23.1 percent black. In terms of marital status, single parents benefit the most (25.7 percent). Those workers with some high school education benefit the most at 43.5 percent of the population being affected.

EDD in its analysis of the original bill expressed concern that the increase applicable to state contractors may result in at least some contractors choosing to opt out of doing business with the state, which could make it difficult for agencies to provide services to New Mexicans. It reported that cities that have enacted minimum wages have experienced business closures and relocations. For small businesses, the extra costs associated with a minimum wage increase is often impossible to recoup by raising prices, which again could impact state agencies' provision of services.

DFA provides these comments:

Some studies have argued that increases in minimum wage lead to lower employment levels. If those most likely to be subjected to the minimum wage are also those most likely to experience extreme poverty, any decrease in employment might be counterproductive to the legislation. Others claim that minimum wage increases lead to greater purchasing power and consumer demand, which leads to greater economic growth.

Data indicate that unskilled workers such as teenagers and retail employees are more likely subject to minimum wages. Studies also suggest that there is a larger negative employment effect in small counties and states with low average wages, where more workers are affected by the minimum wage.

Additionally, DFA expresses concern that the requirement that a contractor with a contract of \$60,000 or more with the state pay a minimum wage of \$10.10 may prevent the consideration of

otherwise qualified contractors and may weaken the pool of candidates. Additionally this may be complicated by currency conversions and fluctuating currency rates with contractors that are based out of the country, such as Canada.

PERFORMANCE IMPLICATIONS

WSD does not anticipate a significant increase in the number of wage claims arising from this legislation. Its Labor Relations Division would continue to investigate wage claims received under standard operating procedures.

ADMINISTRATIVE IMPLICATIONS

SPO reports the classified service salary structure will need to be reviewed and adjusted upward as appropriate if the new minimum wage was higher than the minimum of the lowest pay range. Currently, the minimum rate of pay band 25 is \$7.50 per hour, and the minimum rate of pay band 30 is \$7.59 per hour. If enacted, these pay band structural issues would be easily addressed by SPO.

CONFLICT

Pending bills on the topic of raising the minimum wage and which conflict to some extent with SB 319 include:

- SJR 13 proposes a constitutional amendment that includes raising the minimum wage from \$7.50 to \$7.71 and requires annual upward adjustment, linked to a consumer price index with an annual cap of four percent.
- HJR 9 also raises the minimum wage from \$7.50 to \$7.71 and requires annual upward adjustments linked to a consumer price index.
- HB 213 raises the minimum wage from \$7.50 per hour to \$10.10 per hour, with annual upward adjustments of .05 percent linked to a consumer price index.
- HB 275 raises the minimum wage from \$7.50 per hour to \$12 per hour for all state employees and persons employed at a state educational institution except student employees.
- SB 285 raises the minimum wage from \$7.50 to \$8.00 per hour, except the minimum wage for employees of small employers who employ ten or fewer employees and employers of trainee employees would be \$7.50.
- SB 322 raises the minimum wage from \$7.50 per hour to \$10.10 per hour for all state employees and persons employed at a state educational institution except student employees.

TECHNICAL ISSUES

SPO suggests in both (E) and (F), the phrase “ten dollars ten cents (\$10.10) per hour and shall be adjusted annually” should read “ten dollars ten cents (\$10.10) per hour and the minimum wage”

rate shall be adjusted annually” (underlining reflects new phrase). Alternatively, the word “and” on page 2, lines 5 and 17 could be changed to “which”.

OTHER SUBSTANTIVE ISSUES

WSD reports there are currently 10 other states (Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont and Washington) that have minimum wages that are linked to a consumer price index. As a result of this linkage, the minimum wages in these states are normally increased each year, generally around January 1st of each year. Rhode Island’s increase, enacted in 2012 unrelated to the consumer price index. Meanwhile, Alabama, Louisiana, Mississippi, South Carolina, and Tennessee do not set state minimum wage standards. Employees in these states receive \$7.25 per hour, the minimum hourly wage set by the federal Fair Labor Standards Act. A map showing the minimum wage breakdown by state is available at <http://www.dol.gov/whd/minwage/america.htm>.

During the 2014 State of the Union Address, President Barack Obama called for a near 40 percent increase to the federal minimum wage, endorsing a bill that would raise the federal minimum wage from \$7.25 per hour to \$10.10. He also announced an executive order (EO) raising the minimum wage to \$10.10 an hour for future federal contract workers, which was signed February 12, 2014 and goes into effect on January 1, 2015. *The Economist* reported in 2013 America’s minimum wage has long been low by international standards, equaling just 38 percent of the median wage in 2011, close to the lowest in the OECD.

Economists are divided on the economic effects of the minimum wage, and particularly over whether wage floors help or hurt job creation. Opponents of minimum wages argue the fixed price floor reduces demand for workers affected by the wage. Proponents of minimum wages argue higher minimums support job and economic growth by shifting income towards people who consume more of what they earn.

SPO reports that in October 2012, New Mexico Voices for Children published a thorough review of the Albuquerque minimum wage economic impact, and a synopsis of the Santa Fe minimum wage impact. It is located here: <http://www.nmvoices.org/wp-content/uploads/2012/10/abq-min-wage-report-9-12.pdf>.

Additionally, SPO cites a January 22, 2014, article in the Santa Fe New Mexican that reported the highest minimum (living) wage in the nation is in SeaTac, Washington at \$15.00 an hour. San Francisco is the second highest at \$10.74 an hour, while Santa Fe is the third highest, with the \$10.66 an hour living wage that goes into effect on March 1, 2014.

MD/svb:jl