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FISCAL IMPACT REPORT

ORIGINAL DATE 02/02/14
 SPONSOR Martinez, R. C. LAST UPDATED 02/13/14 HB _____
 SHORT TITLE Annually Increasing Minimum Wage, CA SJR 13/aSJC
 ANALYST van Moorsel

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

FY15	FY16	FY17	FY18	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
\$0.0	\$156.0	\$214.5	\$327.6	\$698.0	Recurring	Various
\$0.0	\$0.0	\$46.0	\$0.0	\$46.0	Nonrecurring	Election Fund

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB 213 – Raise Minimum Wage

SOURCES OF INFORMATION

LFC Files

Responses Received From

Attorney General’s Office (AGO)
 State Personnel Office (SPO)
 Economic Development Department (EDD)

SUMMARY

Synopsis of SJC Amendment

The Senate Judiciary Committee Amendment provides that the increase in the minimum wage due to the cost of living increase may not exceed four percent in any one year. The amendment specifies that the governor must begin publishing the state minimum wage beginning in 2016. Finally, the amendment provides tipped employees not be paid wages less than 30 percent, rather than 60 percent, of the minimum wage so long as the tips, combined with wages, reach the minimum wage amount.

AMENDED FISCAL IMPLICATIONS

The cost of living increase as approximated by the IHS-Global Insight projection growth in the CPI-U does would exceed four percent in the initial increase, as the cost of living from 2009 through the date of election is approximately 10.36 percent. Capping this initial increase at four percent would result in a lower initial increase in the minimum wage (to \$7.80 in FY16) and would lower subsequent fiscal impacts. Further, making the increase in the minimum wage effective January 1, rather than July 1, slightly shifts the estimated impact on state operating budgets.

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The reduced increase to the minimum wage pursuant to the amendment brings with it a reduction in the assumption for the number of state employees earning less than that wage. The revenue table reflects an estimate that a total of 200 state employees would have their wage increased from \$7.50 to \$7.80 in FY16. 220 people would receive a raise to \$7.95 beginning calendar year 2017, and 240 people would receive a raise to \$8.10 in calendar year 2018.

Synopsis of Original Bill

Senate Joint Resolution 13 proposes adding a new section to Article 20 of the Constitution of New Mexico to require that, effective July 1, 2015, the state minimum wage rate in effect on January 1, 2014 be increased in an amount equal to the total increase in the cost of living from January 1, 2009 through the date of the election in which this amendment is adopted. The minimum wage would then be adjusted annually to account for increases in the cost of living. The minimum wage may not be adjusted downward due to a reduction in the cost of living.

The joint resolution provides that the cost of living be measured by the percentage increase in the consumer price index for all urban consumers (CPI-U) in February of the current year over February of the previous year.

The joint resolution also requires that tipped employees not be paid wages less than 60 percent of the minimum wage so long as the tips, combined with wages, reach the minimum wage amount.

Local governments may adopt minimum wages above the state minimum wage. For example, starting January 1, 2014, Albuquerque's minimum wage is \$8.60 with no health benefits, and \$7.60 with health benefits. Albuquerque's minimum wage for tipped employees is \$5.16. In Santa Fe, the minimum wage rate is scheduled to rise from \$9.85 to \$10.29 per hour on March 1, 2014.

The amendment proposed by this resolution shall be submitted to the people for their approval or rejection at the next general election or at any special election prior to that date that may be called for that purpose.

FISCAL IMPLICATIONS

Assuming the voters approve the constitutional amendment at the next general election held November, 2014, in FY16 the minimum wage would increase by the growth in the CPI-U from CY2009 to CY2014. Global Insight, the economic forecasting service used by the LFC, the Taxation and Revenue Department, and the Department of Transportation, shows inflation 10.3 percent during this time. The current minimum wage is \$7.50, and the inflation adjustment would raise the minimum wage for FY16 to \$8.30 per hour. The FY17 minimum wage would grow to \$8.40, and FY18 would grow to \$8.60.

The State Personnel Office's 2013 compensation report notes 294 state employees fall into pay band 25, with an average salary of \$19,179. This analysis assumes 300 state employees would be subject to a raise after increasing the minimum wage from \$7.50 to \$8.40, at an increased salary cost of \$500 thousand. Assuming a 25 percent benefits cost, the FY16 cost of the wage increase totals \$624 thousand. The estimated increased wage cost of paying an assumed 320 state employees \$8.40 per hour in FY17 would be \$749 thousand. For FY18, paying an assumed 340 employees a wage of \$8.60 per hour would cost the state \$972 thousand.

The State Personnel Office's analysis uses several different assumptions, the most important of which is its assumption of initial wage growth of 2.3 percent, based on the average CPI-U over the past 10 years. Using this assumption, SPO estimates the state minimum wage would increase from \$7.50 per hour to \$7.67 per hour, in year one. Currently 47 classified employees will fall below \$7.67 per hour and the annualized salary cost (excluding benefits) to bring these employees to the proposed minimum wage would be \$10,920 (based 2,080 hours per year). The annualized cost with benefits would be $\$10,920 \times 26.24\% = \$13,785$. 173 other employees will fall below \$7.67 per hour and the annualized salary cost (excluding benefits) to bring these employees to the proposed minimum wage would be \$60,923 (based 2,080 hours per year). The annualized cost with benefits would be $\$60,923 \times 26.24\% = \$76,909$.

There would be an indeterminate additional fiscal impact to both private and (non-state) public sector organizations if this Constitutional Amendment to provide automatic wage increases is approved by voters, as many organizations pay workers at the minimum wage level.

SIGNIFICANT ISSUES

The National Conference of State Legislatures reports the following minimum hourly wages for states near New Mexico:

- Arizona - \$7.90 (rate is increased annually based on a cost of living formula)
- California - \$8.00 (\$9.00 eff. 7/1/2014, \$10.00 eff. 1/1/2016)
- Colorado - \$8.00 (rate is increased annually based on a cost of living formula)
- Oklahoma - \$7.25
- Nevada - \$8.25 w/o health benefits, \$7.25 with health benefits (adjustments subject to increases in the federal minimum wage, tied to CPI)
- Texas - \$7.25
- Utah - \$7.25

The WSD's Wage and Hour Bureau enforces the Minimum Wage Act. The Bureau investigates and gathers data on wages hour issues to enforce compliance with the Act. The WSD also provided the following information:

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.

There are ten states (AZ, CO, FL, MO, MT, NV, OH, OR, VT, and WA) that have increased minimum wage rates that are tied to the 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 is provided by special legislation 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.

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. *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.

The following analysis was provided by the Economic Development Department in its analysis of similar 2013 legislation:

Mandating cost of living wage increases is well-intended in a state with a high percentage of residents living at or below the poverty level, but determining a single percentage wage increase that is appropriate in all regions of New Mexico presumes the state is not as diverse as the data indicates.

A single mandated percentage wage increase does not take into consideration the differences in wage levels paid by each industry and skill level. According to the New Mexico Department of Workforce Solutions, average weekly wages for the second quarter of 2012 in retail trade were \$490 compared to \$1,372 in the mining industry sector. Percentage increases will clearly impact higher paying industries at a disproportionate rate, providing a disincentive to pay higher wages.

Finally, mandating increases based on national data derived from urban areas and averaged over many categories of commodities and services is flawed in its assumption that we each have similar spending patterns, pay relatively equal prices for what we purchase and achieve fairly equal levels of income.

The DFA noted in its analysis of similar 2013 legislation that minimum wage increases could be counterproductive to the bill's intent citing that some studies have argued that increases in minimum wage lead to lower employment levels and that there is a larger negative employment effect in small counties and states with low average wages. The DFA also stated this proposal might deter business expansion or relocation to New Mexico. Conversely, the DFA added that other studies claim that minimum wage increases lead to greater purchasing power and consumer demand, which leads to greater economic growth.

The SPO warned in its analysis of similar 2013 legislation that as time goes on without adjusting salaries for all other employees, annual increases to the minimum wage would cause significant pay compression. The SPO contended that noticeable differences in pay rates should exist between jobs that are noticeably different based on job related criteria such as education, experience, and/or tenure.

ADMINISTRATIVE IMPLICATIONS

Under 1-16-13 NMSA 1978 and the NM constitution, the SOS is required to print samples of the text of each constitutional amendment, in both Spanish and English, in an amount equal to ten percent of the registered voters in the state. The SOS is also required to publish them once a week for four weeks preceding the election in newspapers in every county in the state. In 2012, the cost for the 2012 General Election ballots was \$46,000 per constitutional amendment.

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However, if the ballot size is greater than one page, front and back, it would increase the cost of conducting the general election. In addition to the cost of the ballot, there will be added time for processing voters to vote and would mean additional ballot printing systems would be required to avoid having lines at voting convenience centers.

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