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## FISCAL IMPACT REPORT

ORIGINAL DATE 01/30/15  
 SPONSOR Garcia, MP LAST UPDATED 02/09/15 HB 138  
 SHORT TITLE Increase Minimum Wage SB \_\_\_\_\_  
 ANALYST Sanogo/ Klundt

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

|              | FY15    | FY16    | FY17    | 3 Year Total Cost | Recurring or Nonrecurring | Fund Affected |
|--------------|---------|---------|---------|-------------------|---------------------------|---------------|
| <b>Total</b> | \$301.0 | \$581.0 | \$581.0 | \$1,463.0         | Recurring                 | Various       |

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

| Estimated Revenue |                              |                              | Recurring or Nonrecurring | Fund Affected          |
|-------------------|------------------------------|------------------------------|---------------------------|------------------------|
| FY15              | FY16                         | FY17                         |                           |                        |
|                   | Positive, but unquantifiable | Positive, but unquantifiable | Recurring                 | Personal Income Taxes  |
|                   | Unquantifiable               | Unquantifiable               | Recurring                 | Corporate Income Taxes |

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files  
 US Department of Labor, Bureau of Labor Statistics (BLS)  
 US Department of Commerce, Bureau of Economic Analysis (BEA)  
 National Conference of State Legislatures (NCSL)  
 Office of Management and Budget (OMB)  
 Moody's Analytics Inc.  
 Forbes Inc.

### Responses Received From

Economic Development Department (EDD)  
 Workforce Solutions Department (WSD)  
 Administrative Office of the Courts (AOC)  
 Taxation and Revenue Department (TRD)  
 State Personnel Office (SPO)  
 Department of Finance and Administration (DFA)  
 Human Services Department (HSD)  
 Secretary of State (SOS)

## **SUMMARY**

House Bill 138 amends Section 50-4-22 NMSA 1978 regarding “Minimum Wages.” The bill proposes to phase in a minimum wage increase from \$7.50 to \$10.10 over three calendar years, starting on January 1, 2016. Tipped employees shall be paid a minimum hourly wage that is equal to forty percent of the minimum wage proposed in HB 138 Subsection A.

In addition, the bill proposes to index increases to increases in the regional cost-of-living index. The cost-of-living adjustment is measured as the year-over-year August increase of the consumer price index (CPI-U), as published by the United States Department of Labor. The proposed legislation would require the Workforce Solutions Department (WSD) to calculate changes to the minimum wage and notify employers by November of each year any increases that will become effective on the next January 1. The minimum wage may not be adjusted upward by more than four percent in any one year as a result of an increase in the CPI.

## **FISCAL IMPLICATIONS**

The State Personnel Office (SPO) has submitted an analysis of the related HB 20, which proposes an immediate minimum wage increase from \$7.50 to \$10.10. SPO calculated the cost to immediately bring all classified state employees to \$10.10 an hour to be \$754 thousand, including benefit. HB 138 proposes to phase in the minimum wage increase over a three calendar year period, starting on January 1, 2016. The amounts in the table above reflect the apportionment of the calendar year costs to the fiscal years affected.

For the jury and witness fund, the Administrative Office of the Courts (AOC) reports it will require \$96 thousand for every \$0.25 increase in the minimum wage. The initial cost of the increase from \$7.50 to \$10.10 is estimated at \$350 thousand in the 2016 calendar year, and \$300 thousand in the 2017 calendar year. The amounts in the table above reflect the apportionment of the calendar year costs to the fiscal years affected.

Unquantifiable, positive impacts to personal income taxes (PIT) may result from raising the minimum wage. Any positive increases may be offset by lower employment levels due to fewer minimum wage jobs (see table 1, next page, summarizing the impact of minimum wage increases in NM). In FY14, PIT contributed \$1.25 billion, or 20.7 percent, to the general fund.

Unquantifiable impacts to corporate income taxes (CIT) may also result from raising the minimum wage. In FY14, CIT contributed \$197 million, or 3.3 percent, to the general fund.

## **SIGNIFICANT ISSUES**

Economists are divided on the economic effects of the minimum wage. In New Mexico’s case, the previous minimum wage increases have not produced significant effects on employment or corporate earnings (see table 1, next page). In states that have indexed increases in their minimum wages to increases in the cost-of-living, consumer prices have not deviated significantly from the national average (see “Attachment C”).

**Table 1: Historical Impact of Minimum Wage Increases in NM  
( 2004, 2008-2009 )**

| New Mexico Statistic          | Impact                | More Information       | Source           |
|-------------------------------|-----------------------|------------------------|------------------|
| <b>Total number of jobs</b>   | No significant impact | Figure 1, Attachment A | WSD, BLS         |
| <b>Entry-level jobs</b>       | No significant impact | Figure 2, Attachment A | WSD, BLS         |
| <b>Small business jobs</b>    | No significant impact | Figure 3, Attachment A | WSD, BLS         |
| <b>Rural jobs</b>             | Minimal               | Figure 4, Attachment A | WSD, BLS         |
| <b>Business rankings</b>      | No significant impact | Figure 1, Attachment B | Forbes, BEA, BLS |
| <b>Corporate earnings</b>     | No significant impact | Figure 3, Attachment B | BEA              |
| <b>Gross domestic product</b> | No significant impact | Figure 4, Attachment B | BEA              |

### PERFORMANCE IMPLICATIONS

The Economic Development Department (EDD) states that its ability to recruit and retain businesses in New Mexico will depend on business costs within the state (see “Attachment B,” for current business costs in New Mexico versus neighbors and the US).

### OTHER SUBSTANTIVE ISSUES

According to the National Conference of State Legislatures (NCSL), New Mexico is among 28 other states with a current minimum wage rate above the federal rate of \$7.25 an hour. In Santa Fe, Albuquerque, and Las Cruces, the minimum wage rates are above the state minimum of \$7.50.

### RELATION TO OTHER BILLS

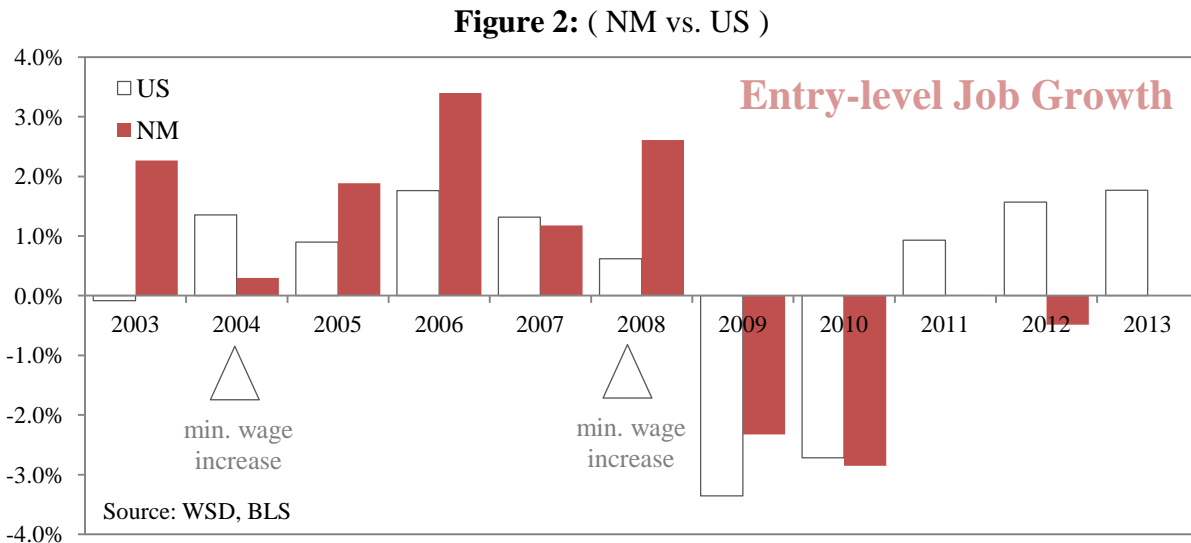
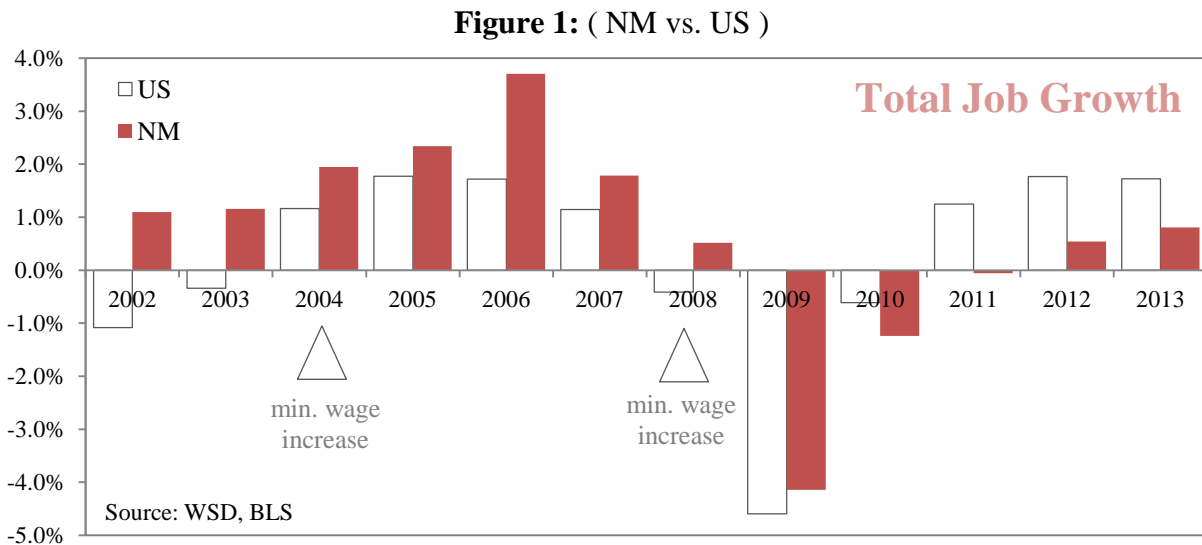
| Bill          | Proposed Min. Wage | Phase-in Period | Indexed to Inflation | Applies to      | Other                                  |
|---------------|--------------------|-----------------|----------------------|-----------------|--|
| <b>HB 20</b>  | \$10.10            | -               | x                    | All employees   |  |
| <b>HB 138</b> | \$10.10            | 3 years         | x                    | All employees   | Tipped min. wage is 40% of non-tipped  |
| <b>HB 360</b> | \$15.00            | 3 years         | x                    | All employees   | Tipped min. wage is 100% of non-tipped |
| <b>SB 10</b>  | \$8.30             | -               |                      | All employees   | Excludes "trainee" employees           |
| <b>SB 342</b> | \$10.10            | -               |                      | State employees |  |
| <b>SB 432</b> | \$10.10            | 2 years         | x                    | All employees   | Tipped min. wage is 50% of non-tipped  |
| <b>SB 350</b> | \$10.10            | -               | x                    | State employees | Includes contractors                   |
|               | \$7.50             | -               | x                    | Other employees |  |
| <b>SJR 9</b>  | \$7.50             | -               | x                    | All employees   | Tipped min. wage is 50% of non-tipped  |

## ATTACHMENT A – Employment Impacts

### What are the impacts on employment?

Employment in New Mexico grew faster than the national rate throughout the minimum wage increases in 2004 and 2008-2009, according to data collected by the Workforce Solutions Department (WSD). This is displayed in figure 1, below, where the national employment growth provides a frame of reference for overall economic conditions.

Figure 2 shows the year-over-year change in entry-level employment<sup>1</sup> in New Mexico. Such job growth was markedly below the national rate in 2004; in 2008, it was markedly above.

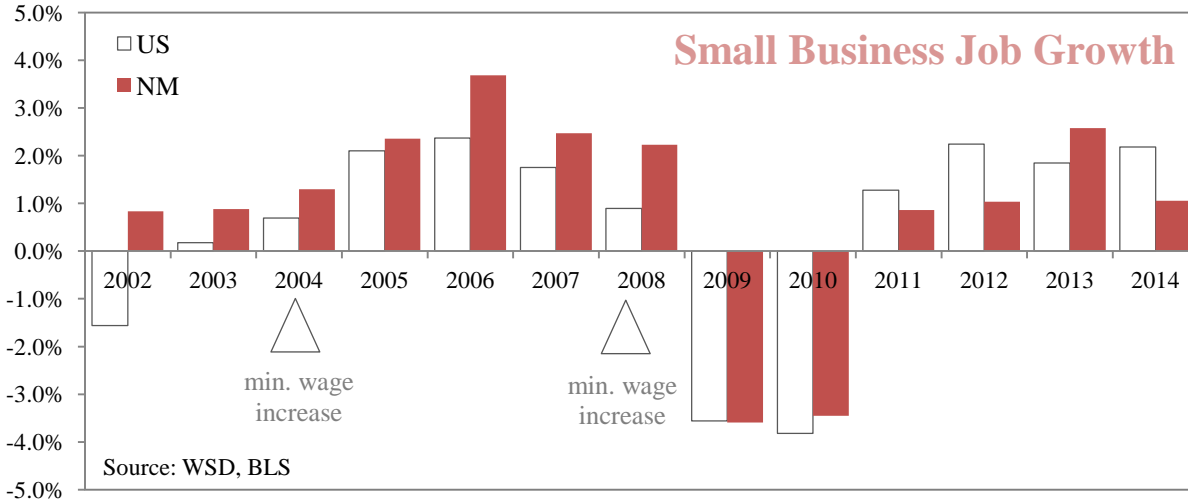


<sup>1</sup> “Entry-level” employment for each year is defined as those occupations with at least 10 percent of employees below the minimum wage increases of 2004, 2008-2009, or the proposed 2015 increase.

### What are the impacts on small business employment?

Small business in New Mexico hired additional employees faster than the national rate throughout the minimum wage increases in 2004 and 2008-2009<sup>2</sup>. Figure 3 displays the employment growth rate of privately-owned small business in New Mexico, versus privately-owned small businesses in the US. To establish a sense of the impact on these entities, government employment has been excluded from the data.

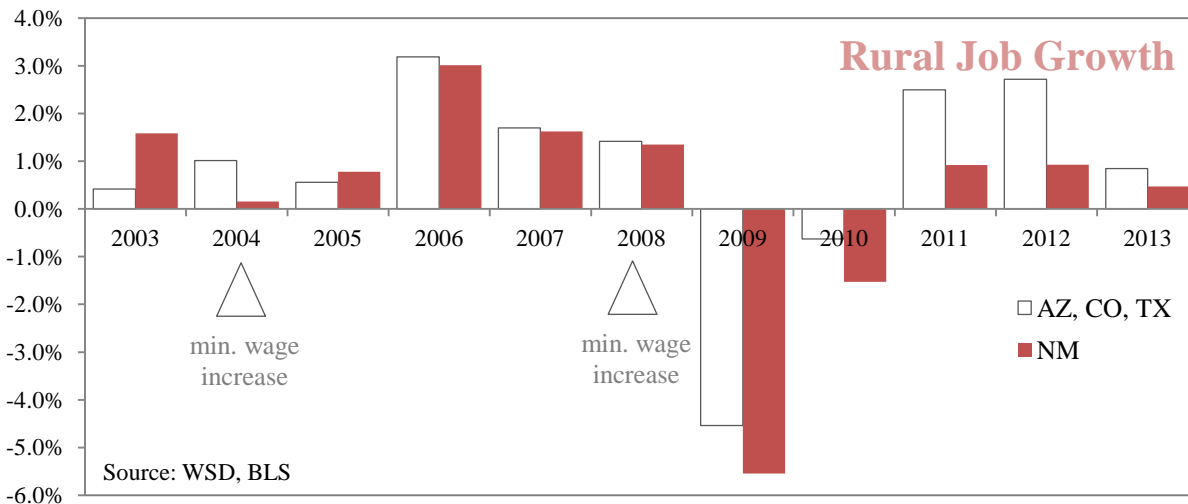
**Figure 3: ( NM vs. US )**



### What are the impacts on rural employment?

In New Mexico, there are 26 rural counties according to Economic Development Department (EDD) and the definitions of the federal Office of Management and Budget (OMB). Figure 4 displays the median job growth of nonfarm occupations in the rural NM counties between 2003 and 2013. To establish a sense of the impacts on rural businesses, government employment has been excluded from the data. The benchmark in this figure represents the median job growth in the 228 rural counties in the neighboring states of Arizona, Colorado, and Texas. New Mexico's rural job growth was markedly below its neighbors in 2004; in 2008, rural jobs grew at the same rate as the neighbors.

**Figure 4: ( NM vs. Neighbor States )**



<sup>2</sup> "Small business" in the figure represents all private establishments that have between one and 499 employees.

Deviations from the national benchmark are likely governed by factors other than New Mexico minimum wage policy. The previous figures, for example, do not record the effective dates of major changes to tax laws, capital investments, demographic shifts or economic development programs. Isolating the individual contribution of each of these factors to economic performance is not a straightforward, trivial task.

## Appendix

For those interested in further research, the WSD / BLS data presented in this attachment are listed below. Data are publicly available at the BLS page (<http://data.bls.gov/cgi-bin/srgate>), at the BLS OES page ( <http://data.bls.gov/oes/occupation.do> ) and the WSD labor market information webpage ( <http://www.dws.state.nm.us/LMI> ).

**Table 1: BLS Data used in Figure 1**

| Region | Industry | Data Series ID  | Region | Industry | Data Series ID  |
|--------|----------|-----------------|--------|----------|-----------------|
| US     | Total    | ENU US00 010010 | NM     | Total    | ENU 3500 010010 |

**Table 2: BLS Data used in Figure 2**

| Region | Occupation | Dataset         | Region | Occupation | Dataset         |
|--------|------------|-----------------|--------|------------|-----------------|
| US     | All        | OES 2001 - 2013 | NM     | All        | OES 2001 - 2013 |

**Table 3: BLS Data used in Figure 3**

| Region | No. of Employees | Data Series ID  | Region | No. of Employees | Data Series ID  |
|--------|------------------|-----------------|--------|------------------|-----------------|
| US     | < 5              | ENU US00 011510 | NM     | < 5              | ENU 3500 011510 |
| US     | 5-9              | ENU US00 012510 | NM     | 5-9              | ENU 3500 012510 |
| US     | 10-19            | ENU US00 013510 | NM     | 10-19            | ENU 3500 013510 |
| US     | 20-49            | ENU US00 014510 | NM     | 20-49            | ENU 3500 014510 |
| US     | 50-99            | ENU US00 015510 | NM     | 50-99            | ENU 3500 015510 |
| US     | 100-249          | ENU US00 016510 | NM     | 100-249          | ENU 3500 016510 |
| US     | 250-499          | ENU US00 017510 | NM     | 250-499          | ENU 3500 017510 |

**Table 4: BLS Data used in Figure 4**

| Region           | Data Series ID  | Region            | Data Series ID  |
|------------------|-----------------|-------------------|-----------------|
| Catron County    | ENU 3500 310510 | Luna County       | ENU 3502 910510 |
| Chaves County    | ENU 3500 510510 | McKinley County   | ENU 3503 110510 |
| Cibola County    | ENU 3500 610510 | Mora County       | ENU 3503 310510 |
| Colfax County    | ENU 3500 710510 | Otero County      | ENU 3503 510510 |
| Curry County     | ENU 3500 910510 | Quay County       | ENU 3503 710510 |
| De Baca County   | ENU 3501 110510 | Rio Arriba County | ENU 3503 910510 |
| Eddy County      | ENU 3501 510510 | Roosevelt County  | ENU 3504 110510 |
| Grant County     | ENU 3501 710510 | San Miguel County | ENU 3504 710510 |
| Guadalupe County | ENU 3501 910510 | Sierra County     | ENU 3505 110510 |
| Harding County   | ENU 3502 110510 | Socorro County    | ENU 3505 310510 |
| Hidalgo County   | ENU 3502 310510 | Taos County       | ENU 3505 510510 |
| Lea County       | ENU 3502 510510 | Torrance County   | ENU 3505 710510 |
| Lincoln County   | ENU 3502 710510 | Union County      | ENU 3505 910510 |

Contact LFC for series ID of rural counties in AZ, CO, TX

## ATTACHMENT B

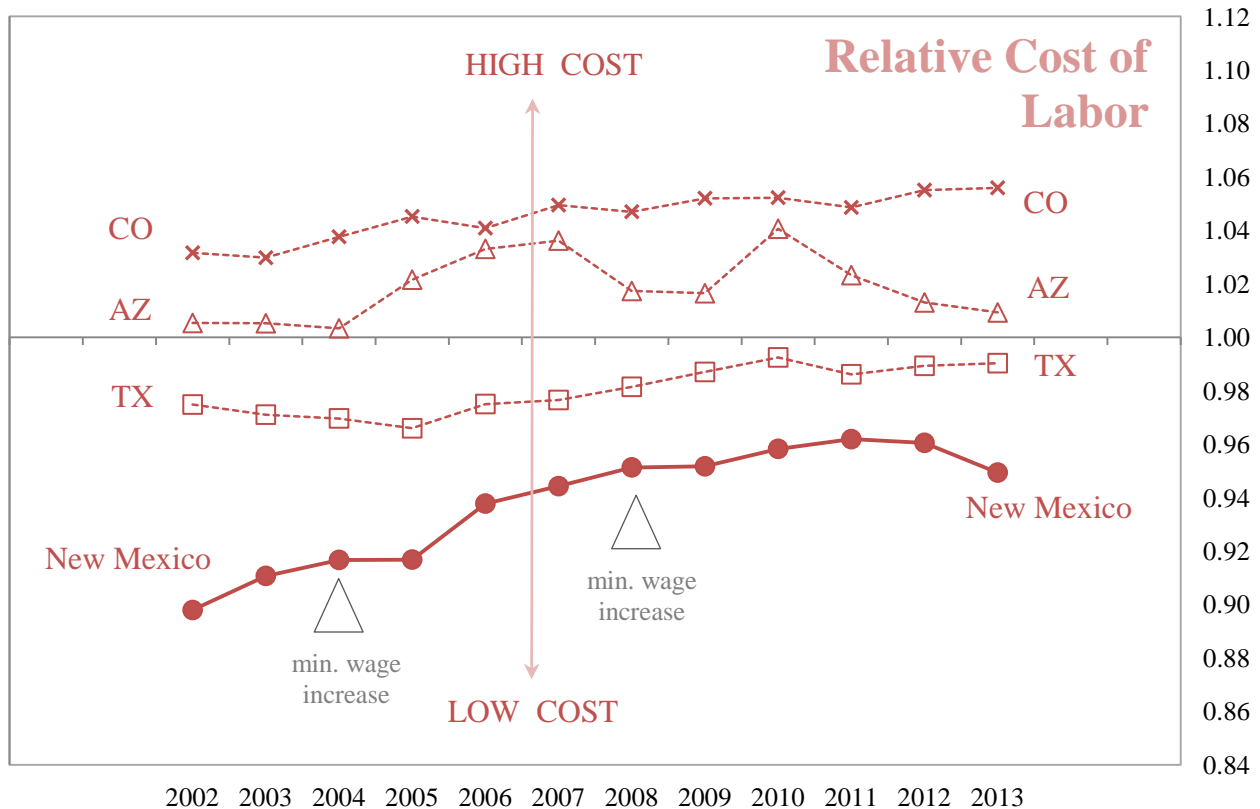
### Impact on Business Rankings and Economic Development

To produce output worth \$1.0 million, a business would need to pay its workers:

- \$ 482 thousand, if production occurred in New Mexico
- \$ 503 thousand, if production occurred in Texas
- \$ 512 thousand, if production occurred in Arizona
- \$ 536 thousand, if production occurred in Colorado
- \$ 507 thousand, if production was dispersed throughout the US

The cost of labor measures how much output is achieved per unit of wages paid to employees (unit labor cost, ULC). In these terms, the cost of labor in New Mexico is lower than neighboring states and the national average. The previous minimum wage increases in 2004 and 2008-2009 did not significantly alter New Mexico's competitive position: increases in wages were offset by increases in production. Figure 1 displays the high costs associated with labor in Colorado, versus the low costs associated with Texas and New Mexico.

**Figure 1: (NM vs. US and Neighbors)**



Source: BEA, Moody's Analytics, LFC analysis

Unit labor costs are calculated according to the methodology used in national rankings of states for doing business<sup>1</sup>.

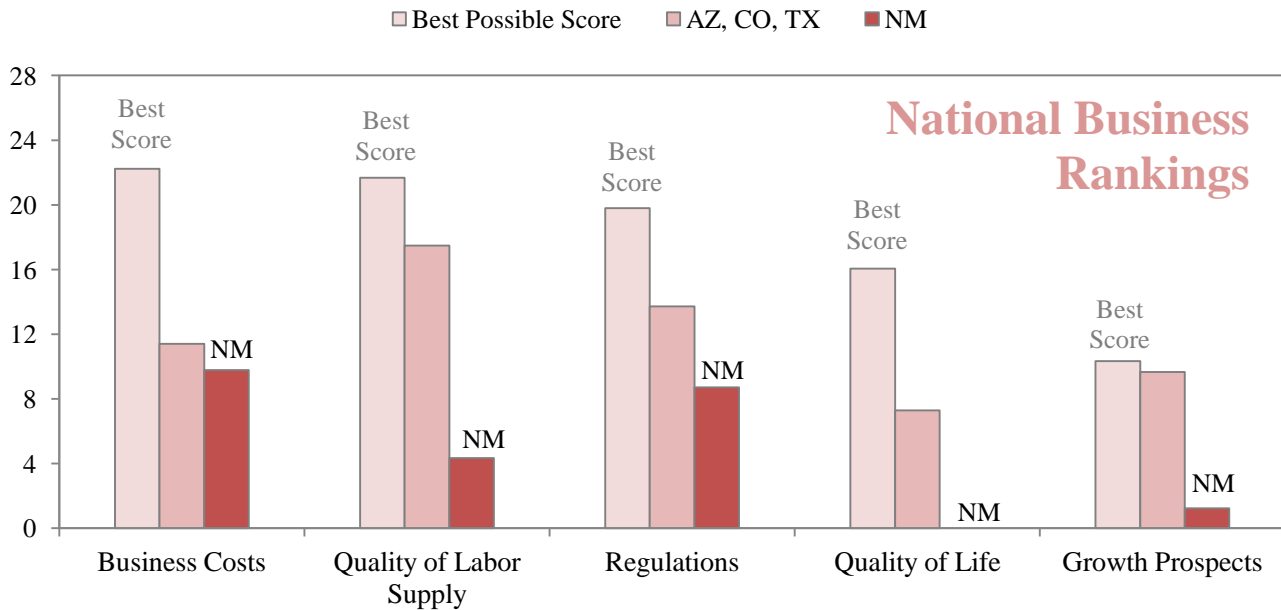
<sup>1</sup> See: *Regional Financial Review*, Sept. 2012, Moody's Analytics Inc; *BLS Handbook of Methods*, Chapter 10: Calculation Procedures, US Department of Labor, Bureau of Labor Statistics.

## Reasons New Mexico is ranked low among states for economic development

Despite low labor costs that encourage economic development, New Mexico is consistently among the low-ranking states for business, ranked 47<sup>th</sup> in the nation in 2014 by *Forbes*. The Economic Development Department (EDD) has warned that these low rankings raise a “red flag” to company site selectors.

The 2014 *Forbes* ranking was decomposed into its category scores, shown in figure 2, below. To its credit, business costs in New Mexico are comparable to its neighbors (Arizona, Colorado, and Texas). The business cost category consists of unit labor costs (see figure 1), energy costs, and the state’s tax burden. Notable obstacles to higher rankings and business development are the state’s high crime rates, high poverty rates, and education levels.

**Figure 2: (NM vs. US and Neighbors)**



Source: Forbes, LFC analysis

### Forbes Business Ranking Methodology

| Category         | Weight* | Description  |
|------------------|---------|--|
| Business Costs   | 25%     | Unit labor costs (see figure 1), the cost of energy, and the state's tax burden  |
| Labor Supply     | 24%     | Quality and size of the labor force, measured by the percentage of high school and college graduates, and net migration into the state.                    |
| Regulations      | 22%     | Government-influenced factors, including ratings on general obligation debt, the level of tax incentives, and other regulatory metrics.                    |
| Quality of Life  | 18%     | State's poverty rate, crime rate, number of top-ranked universities, public school performance, cost-of-living.  |
| Growth Prospects | 11%     | Including the current economic climate, this category incorporates the five-year forecast of the state's economy, growth in employment and personal income |

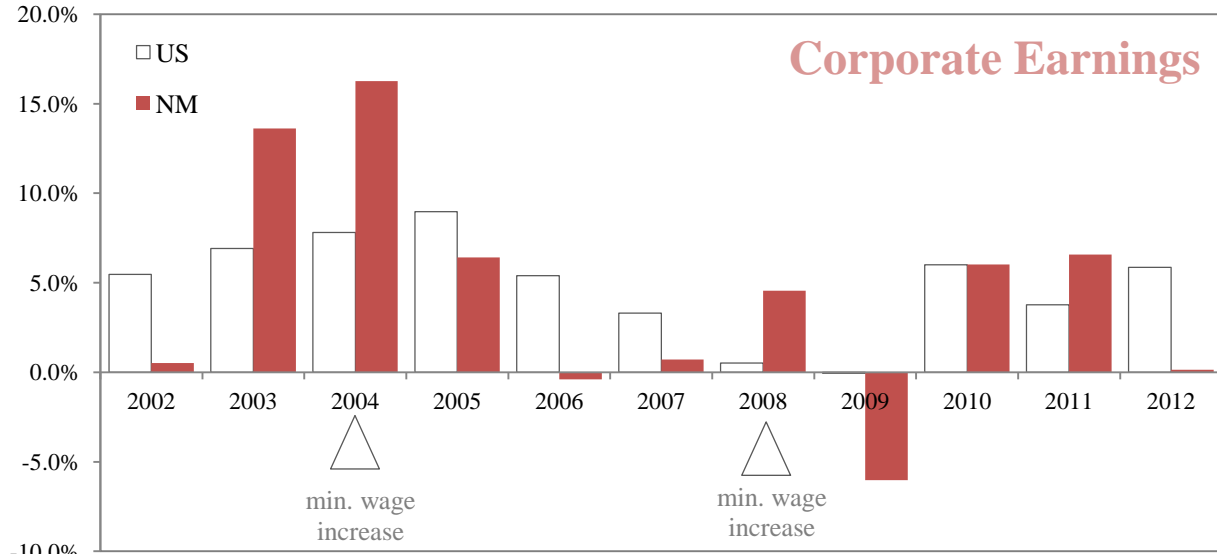
\* Estimated from ordinal logistic regression. The true weights are not published by *Forbes*.



### Impact on Corporate Earnings

Businesses in New Mexico grew their earnings faster than the national rate in 2004 and 2008, according to the Bureau of Economic Analysis (BEA). Figure 3 shows the year-over-year change in total corporate earnings for privately-owned businesses in New Mexico and the US. Corporate earnings are the gross operating surplus, defined as the revenue generated from current production minus operating expenses and production costs (including employee compensation).

**Figure 3: (NM vs. US)**

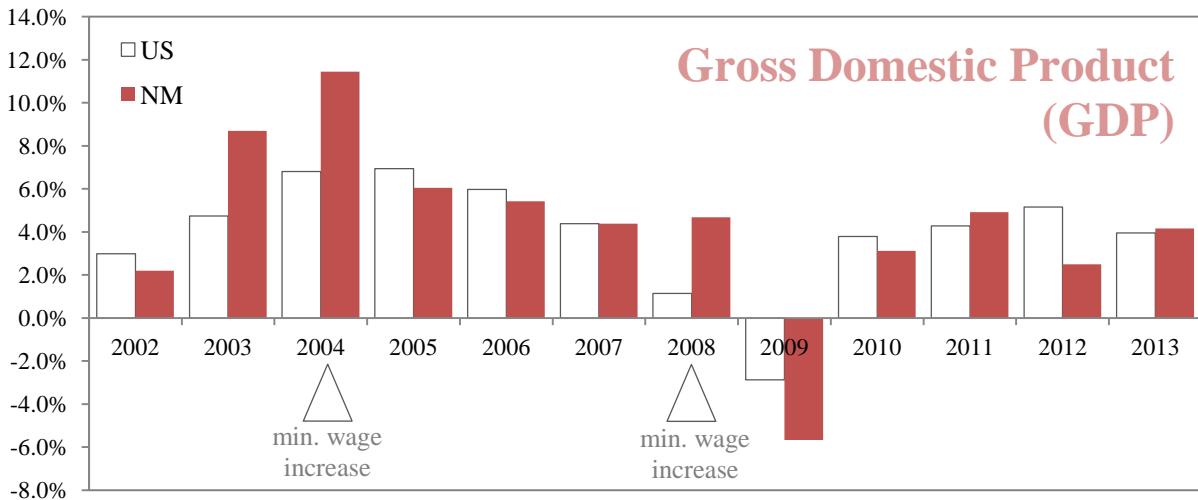


Source: BEA

### Impact on Production

Private industries in New Mexico increased their output faster than the national rate in 2004 and 2008, according to the Bureau of Economic Analysis (BEA). Figure 4 shows the year-over-year change in the gross domestic product of the US and the gross state product of New Mexico. The figure represents data from privately-owned businesses.

**Figure 4: (NM vs. US)**



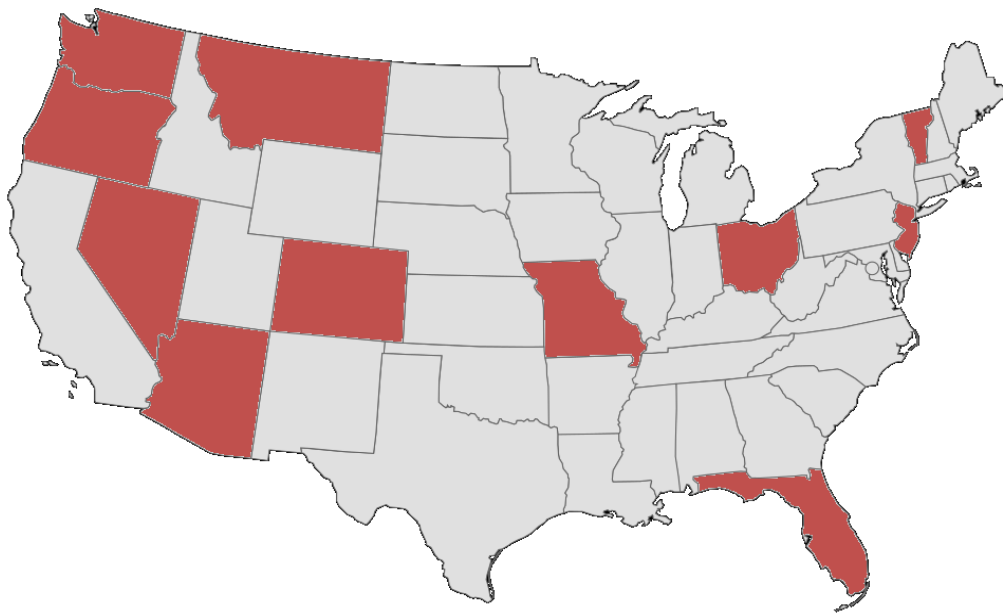
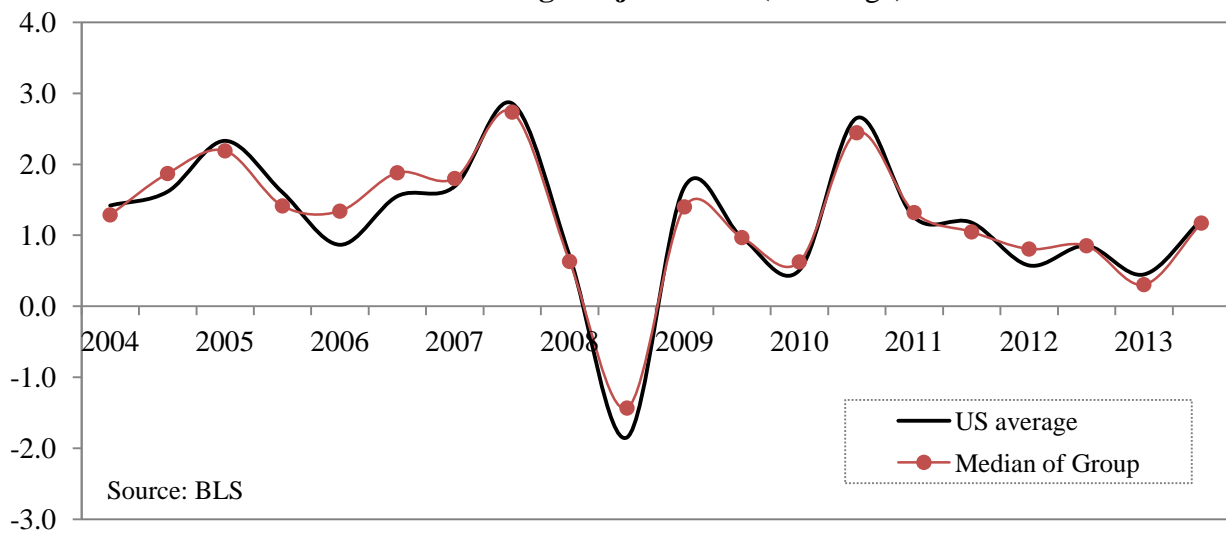
Source: BEA

## ATTACHMENT C – Impact on Consumer Prices

Employers can choose to respond to a higher minimum wage by passing through labor costs onto the consumer. This pass-through would be indicated by consumer prices that depart significantly from national prices. This has failed to occur in states that index minimum wages to inflation.

According to NCSL and BLS, there are 11 states (AZ, CO, FL, MO, MT, NJ, NV, OH, OR, VT and WA are highlighted in the map, below) that have linked their minimum wage rates to the national consumer price index (CPI). In their respective metropolitan statistical areas (MSA), Figure 1 displays the trends in regional consumer prices for this collection of states<sup>1</sup>.

**Figure 1: Consumer Prices for Metropolitan Areas with Cost-of-Living Minimum Wage Adjustments (% change)**



<sup>1</sup> Note that consumer prices are published for BLS-defined geographical regions and metropolitan areas, but not for each state; in figure 1, MSAs are used as proxies for consumer prices in the group of states.