

Fiscal impact reports (FIRs) are prepared by the Legislative Finance Committee (LFC) for standing finance committees of the Legislature. LFC does not assume responsibility for the accuracy of these reports if they are used for other purposes.

FISCAL IMPACT REPORT

SPONSOR <u>HLVMC</u>	LAST UPDATED <u>2/9/23</u> ORIGINAL DATE <u>1/23/23</u>
SHORT TITLE <u>Minimum Wage Increase & Indexing</u>	BILL NUMBER <u>CS/House Bill 25/HLVMC</u>
ANALYST <u>Chenier</u>	

REVENUE* (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY23	FY24	FY25		
	indeterminate, likely positive	Indeterminate, likely positive	Recurring	Personal Income Tax
	Indeterminate, possibly negative	Indeterminate, possibly negative	Recurring	Corporate Income Tax
	Indeterminate, likely positive	Indeterminate, likely positive	Recurring	Gross Receipts Tax

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

	FY23	FY24	FY25	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
	No fiscal impact	\$98.5	\$102.0	\$200.5	Recurring	WSD General Fund
	No fiscal impact	\$6,292.0	\$18,390.1	\$24,682.1	Recurring	HSD Medicaid Service Providers**
	No fiscal impact	(\$88,344.2)	(\$191,154.6)	(\$279,498.8)	Recurring	HSD Medicaid Capitation Savings**
	No fiscal impact	\$76.0	\$95.6	\$171.6	Recurring	ALTSD Senior Employment Program
Total	Choose an item.	(\$81,877.7)	(\$172,566.9)	(\$254,444.6)		

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

**Includes both federal and state share, see detailed table below for the breakout.

Relates to HB28 which indexes the minimum wage rate to the consumer price index.

Sources of Information

LFC Files

Responses Received From
Workforce Solutions Department (WSD)

State Personnel Office (SPO)
Economic Development Department (EDD)
Aging and Long-Term Services Department (ALTSD)
Human Services Departments (HSD)

SUMMARY

Synopsis of HLVMAC Substitute for House Bill 25

The House Labor, Veterans, and Military Affairs Committee Substitute for House Bill 25 would increase the minimum wage rate from \$12 an hour to \$13.50 an hour on January 1, 2024, and to \$15.50 on January 1, 2025, and indexes wage rates and tipped worker wage rates to the consumer price index for urban consumers (CPI-U) starting January 1, 2026, and each year thereafter. Indexed wage rates would not decrease in the case of CPI decreases. Each year on November 1, WSD would post on its website indexed minimum wage rates for the following January.

FISCAL IMPLICATIONS

Starting in 2026, the minimum wage is projected to be \$16.31 hourly using projected CPI-U rates. Projected minimum wage rates using the projected CPI-U over 10 years are shown below.

Projected Annual Minimum Wage Rate Using Projected CPI-U	
	Projected Wage Rate
2023	
2024	\$ 13.50
2025	\$ 15.50
2026	\$ 16.31
2027	\$ 16.63
2028	\$ 16.99
2029	\$ 17.37
2030	\$ 17.73
2031	\$ 18.09
2032	\$ 18.47
2033	\$ 18.85

HSD provided the following:

The analysis of fiscal implications is based on wage increases and the number of employees impacted in healthcare occupations; in particular, home health and personal aides and personal care and service workers. HSD reviewed current data from NM Workforce Solutions, for data year 2021. The agency sampled the wages at the 10th percentile, and determined the number employed and their hourly wage.

The agency calculated the annual cost of adjusting the current min. wage of \$12/hour to \$13.50/hour (January 2024 to December 2024), and the cost of re-adjusting the minimum

wage from \$13.50/hour to \$15.50/hour (January 2025 to December 2025). For the subsequent year, the agency calculated the annual cost of adjusting the minimum wage of \$15.50/hour by the CPI-U index (BLS), beginning January 2026. Prospective inflation adjustments in 2025 and 2026 are based on forecasts of the US Federal Reserve, currently 2% per year. [US Inflation Forecast: 2022, 2023 and Long Term to 2030 | Data and Charts - knoema.com](https://www.knoema.com)

The fiscal impacts occur over 6 months of State Fiscal Year 2024 (Jan 2024-June 2024), 12 months of State Fiscal Year 2025 and 2026 (Jan 2025 - Dec. 2026). The Fiscal Impact analysis calculates the total computable costs of the wage increases, and the State and Federal share applying FMAPS of 73.76% in SFY 2024 and 72.59% in SFYs 2025 and 2026. The impact analysis accounts for both income gains to employees and increased labor costs to employers. In regards to employees the analysis does not account for benefits or taxes associated with wages/salary adjustments. In regards to employers, the analysis does not account for the potential impact on their demand for labor.

Minimum wage increases could potentially impact eligibility and enrollment in the Medicaid program if they result in financial ineligibility for coverage. These “Cliff Effects” would occur if the increase in the minimum wage in a given year is relatively larger than the rate of inflation, as applied by the US Department of Health and Human Services (HHS) in setting poverty thresholds. HHS updates poverty thresholds annually, based on the consumer price index (CPI-U) provided by Bureau of Labor Statistics of the US, Department of Labor. In 2026 the minimum wage adjustment would match the CPI-U. Consequently, the wage increase would not impact Medicaid eligibility because the Federal Poverty Level (FPL) adjusts with CPI-U, and thus the minimum wage increase. However, in SFY 2024 and 2025, the gains in the proposed minimum wage are relatively greater than the projected CPI-U. Consequently, HSD anticipates there would be a negative impact on eligibility from the proposed wage increases. These eligibility impacts result in savings to HSD.

The following table is from HSD and calculates the impact to HSD:

	SFY 2024 Impact (6-months)	SFY 2025 Impact (12 months)	SFY 2026 Impact (12 months)
Total Cost of Wage Increase	\$6,292,000	\$18,390,175	\$18,757,978
Federal Share of Cost	\$4,640,979	\$13,349,428	\$13,616,416
State Share of Cost	\$1,651,021	\$5,040,747	\$5,141,562
Minimum Wage Adjustment(s)	\$12.00 to \$13.50 (Jan-June. 2024)	\$12.00-\$13.50 (July-Dec, 2024) and \$13.50 to \$15.50 (Jan-June, 2025)	\$13.50 to \$15.50 (July- Dec, 2025) and CPI-U adjustments (Jan-June, 2026).
No. of Employees Impacted in Low-Wage Healthcare Occupations	3,521	5,733	5,733
Total Savings on Capitation from Medicaid Ineligibility	-\$88,344,253	-\$191,154,758	
Federal Share of Savings	-\$65,162,721	-\$138,759,239	
State Share of Savings	-\$23,181,532	-\$52,395,519	
Loss of Medicaid Eligibility from Minimum Wage Adjustment(s)	40,555 over 6 months	45,430 over 12 months	0

Net Impact of Minimum Wage Adjustment(s)	-\$82,052,252	-\$172,764,584	\$18,757,978
Federal Share	-\$60,521,741	-\$125,409,811	\$13,616,416
State Share	-\$21,530,511	-\$47,354,722	\$5,141,562

WSD said that, using data from the Occupational Employment and Wage Statistics (OEWS) survey and processed through the Local Employment and Wage Information System (LEWIS) software, it is estimated about 161.5 thousand workers make \$12 or less in New Mexico. The median hourly wage in New Mexico in 2021 was \$18.18.

WSD stated it sees an uptick in claims each time wage and hour laws change. The Labor Relations Division is experiencing over twice the number of claims it experienced last year. The bill would likely increase the workload, requiring an additional FTE to investigate employee claims of noncompliance by employers, as well as contribute to education and outreach activities.

ALTSD stated the department received a general fund appropriation of \$1.2 million to operate the New Mexico Senior Employment Program in FY23. This program provides on-the-job and other vocational training to low-income New Mexicans, 55 years of age or older. On-the-job assignments pay minimum wage. The program requires 75 percent of expenditures in the budget be for participant wages and fringe benefits, therefore the budget increase is proportional to the minimum wage increase.

SIGNIFICANT ISSUES

HSD provided the following:

The NM Human Services Department Income Support Division (ISD) manages a contract for the Wage Subsidy and Career Link programs. These programs provide work opportunities through subsidized employment for our Temporary Assistance for Needy Families (TANF) participants to work either part time or full time at a local business that will give them the experience to gain unsubsidized employment. Programs that provide subsidized employment to participants will reduce the number of hours that a participant can work at the higher salary to maintain eligibility for TANF benefits. Currently participants of these programs earn \$15/per hour. Increasing the hourly rate yearly would affect the pay of the participants as well. The overall contract compensation will be impacted. There will be a need to increase the participant salaries as well as all contract staff.

The impact to HSD enrollment from increasing the minimum wage as described in HB0025s is shown in the table below for select programs. Specifically, an increase in the minimum wage from current levels of \$12 per hour to the proposed amount of \$13.50 per hour may result in a decrease in enrollment for Medicaid (MAGI categories), SNAP, Cash Assistance Program, and LIHEAP by an estimated 40,555, 13,887, 62, 8,610 recipients respectively. A further increase in the minimum wage from \$13.50 per hour to \$15.50 per hour may also result in a decrease in enrollment for Medicaid (MAGI categories), SNAP, Cash Assistance Program, and LIHEAP by an estimated 45,430, 26,615, 79, 12,334 recipients respectively.

The estimated impacts to HSD enrollment from a further increase in the minimum wage by an adjustment for the rate of inflation (6.5% used in this analysis, BLS December 2022) to Medicaid (MAGI categories), SNAP, Cash Assistance Program, and LIHEAP are 19,072, 12,197, 44, 6,073 recipients respectively. The analysis examines impacts to enrollment during the first month the change in minimum wage takes effect. The analysis does not include the impact to recipients employed in jobs with tips and assume all recipients would hold non-tipping employment in the proposed scenarios due to data limitations.

Program	Number of Recipients Over Income Limit in 2024 at \$13.50/hr	Number of Recipients Over Income Limit in 2025 at \$15.50/hr	Number of Recipients Over Income Limit in 2025 at \$15.50/hr plus adjustment for inflation (6.5%) or \$16.51/hr
Medicaid (MAGI categories)	40,555	45,430	19,072
SNAP	13,887	26,615	12,197
Cash Assistance Program	62	79	44
LIHEAP	8,610	12,334	6,073

ALTSD provided the following:

In New Mexico, particularly in rural areas, there is a current lack of paid caregivers, placing some older adults and those with disabilities at risk of institutionalization due to the lack of necessary care or supervision. Caregiving is often a low-wage job. However, by increasing the minimum wage, it will likely increase the number of workers in those areas thereby potentially reducing these risks to our older and disabled populations. A large body of research has identified that many caregivers develop “Caregiver Stress Syndrome,” characterized by negative effects on the individual’s physical, mental, and financial health. Many paid caregivers are caring for their own relatives and are at high risk for this condition. Increasing the minimum wage can positively impact their physical, mental, and financial health, reducing caregiver stress, a known factor leading to abuse, neglect, and exploitation. For more information on “Caregiver Stress Syndrome,” see Today’s Caregiver, 2022: <https://caregiver.com/articles/caregiver-stress-syndrome/>.

According to Indeed, the average salary for a Caregiver is \$14.34 per hour in New Mexico. The proposed increase to \$16.00 per hour minimum wage would increase wages specifically for this industry. Historically, vacancies are high in this area of employment. Often in rural New Mexico, many caregivers use their own vehicles and gas to travel to remote areas to serve clients. This increase would help supplement the costs caregivers assume.

EC/rl/ne/mg/rl/hg/mg