

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

Current FIRs (in HTML & Adobe PDF formats) are available on the NM Legislative Website (legis.state.nm.us). Adobe PDF versions include all attachments, whereas HTML versions may not. Previously issued FIRs and attachments may be obtained from the LFC in Suite 101 of the State Capitol Building North.

FISCAL IMPACT REPORT

SPONSOR Beffort DATE TYPED 2/16/05 HB _____

SHORT TITLE Prohibit Minimum Wages Exceeding Federal SB 535

ANALYST Hadwiger

APPROPRIATION (in \$000s)

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	NFI				

(Parenthesis () Indicate Expenditure Decreases)

Relates to HB614.

SOURCES OF INFORMATION

LFC Files

Responses Received From

Department of Finance and Administration (DFA)

Tourism Department (TD)

Economic Development Department (EDD)

Department of Human Services (DHS)

Department of Labor (DOL)

SUMMARY

Synopsis of Bill

Senate Bill 535 would prohibit a political subdivision of the state from requiring a minimum wage in excess of the federal minimum wage.

Significant Issues

SB535 appears to be a response to “Living Wage Ordinance” proposals that have been offered sporadically around the country and approved by local governments primarily in communities with high costs of living. The Living Wage Ordinances increase the minimum wage within a local jurisdiction above the federal minimum level, typically with the intent of assuring that service sector employees receive sufficient compensation to maintain a standard of living compara-

ble to that provided by the federal minimum wage in localities with a lower cost of living. According to the Department of Finance and Administration (DFA), currently the City of Santa Fe is the only city in New Mexico that has enacted a Living Wage Ordinance setting the minimum wage to \$8.50 in 2004, \$9.50 in 2006 and \$10.50 in 2008. The current statutory minimum wage in New Mexico is \$5.15 per hour, consistent with the federal minimum wage. A full-time employee would earn \$10,712 per year at this wage. SB535 would overturn the Santa Fe ordinance.

Nationally, living wage ordinances have been enacted in 123 city and county governments in more than 20 states, including Sacramento, San Francisco, New York City, Des Moines, Cincinnati, New Orleans, Arlington (VA), Missoula (MT), Tucson, and others.

The Economic Development Department (EDD) indicated that mandated minimum wages affect the businesses located in the areas where they are enacted and sometimes make it difficult to stay in business profitably, but that, from the employees' viewpoint, higher minimum wages can mean more income. EDD noted that higher mandatory minimum wages do not usually send a positive message to the existing business community or potential new businesses. A case-in-point is the business park just outside the city limits of Santa Fe, which emphasizes in its marketing that it is just beyond the boundaries of the minimum wage law.

DFA indicated that allowing political subdivisions to enact a minimum wage ordinance preempts the economic policing power of the State. DFA noted that the overall economy is a State concern; it is vital that economic uniformity is maintained preventing problematic economic impacts. It is at the State level that the overall economic effect a minimum wage law will have on cities, counties and surrounding areas can be determined. SB535 will prevent negative economic ramifications caused by minimum wage differences between political subdivisions. According to DFA, a single political subdivision that enacts a higher minimum wage may experience an increase in unemployment and decreased economic growth caused by business closings and or relocations due to an inability to compete with nearby cities; less consumption of big ticket item (i.e. automobiles) due to increased prices in comparison to nearby cities. In most cases gross receipt tax revenues are affected. DFA noted that a study of Santa Fe's Living Wage Act estimated that the higher local minimum wage would cost employers \$33 million in 2005. DFA identified the following negative consequences from the Santa Fe Living Wage Act:

1. Businesses like Hastings, Asado, Wingbasket, Churches Chicken, and Santa Fe Seasons have chosen to close their doors due to the Living Wage Act, causing increased unemployment and decreased municipal and state gross receipt tax revenues. Other profitable companies have chosen to abandon development in Santa Fe preferring nearby cities, including Chile's, which developed in a nearby city. Nonprofit organizations are also making operational decisions based on the higher minimum wage, including the Salvation Army and Santa Fe Boys & Girls Club. Also, because Professional Home Health Care and Heritage Home Health Care are reimbursed by Medicaid at \$7.00/hour, the Living Wage Act has placed them in a precarious position, it is unsure how long their doors will stay open.
2. Some Santa Fe companies will not be able to compete with companies outside the city boundaries, because they may be required to pay up to 100 percent more for minimum wage employees by 2008.
3. In order to stay competitive, companies are forced to decrease their profit margin. In turn, businesses lose funds that would normally be reinvested in the business and or the community influencing economic growth.

4. The costs of the higher minimum wages are passed on to consumers. For example, the higher minimum wage increases the cost of residential construction and services, making it more expensive to purchase, improve, maintain and or repair homes in Santa Fe.
5. Consumers will tend to purchase large ticket items outside the City of Santa Fe, such as automobiles and appliances.

The Department of Labor (DOL) was concerned that SB535 might conflict may conflict with the Public Works Minimum Wage Act (Section 13-4-10 NMSA 1978) which authorizes the Labor & Industrial Division of DOL with setting prevailing wages for public works projects.

FISCAL IMPLICATIONS

The agencies that commented on SB535 identified no significant direct fiscal impact from this bill.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB614 contains the same provisions as SB535, but adds language that would exempt existing ordinances such as Santa Fe from its provisions.

OTHER SUBSTANTIVE ISSUES

The Human Services Department indicated that, in lieu of passage of SB535, individuals living in areas where there is a higher minimum wage than federal minimum wage may not consider state government employment, making it difficult to recruit and retain qualified individuals within state government.

DFA recommended that, to fully prevent negative economic ramifications caused by the minimum wage differences between political subdivisions, SB535 should be amended to eliminate language that grandfatheres the existing ordinance allowing a higher minimum wage.

ALTERNATIVES

EDD suggested that providing incentives (such as the High Wage Jobs Tax Credit) to employers to pay a higher wage is a “softer” approach to achieve the same goal.

POSSIBLE QUESTIONS

1. How would SB535 affect the ability of the DOL to set prevailing wages for public works projects pursuant to the Public Works Minimum Wage Act?

DH/yr