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FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/06
 SPONSOR HBIC LAST UPDATED 2/9/06 HB CS/258/aHFI#1/aHFI#2
 SHORT TITLE Increase State Minimum Wage SB _____
 ANALYST Francis

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	See Narrative			

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with SB 449, SB 746, SB 462

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
		(21.8)	(89.0)	(110.8)	Recurring	GF: State Per- sonnel Office
Total		279.6	690.3	969.9	Recurring	GF: Jury and Witness Fee Fund

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
 NM Department of Labor (NMDOL)

Responses Received From
 NM Department of Labor (NMDOL)
 Department of Corrections (DC)
 Human Services Division (HSD)
 Office of the Courts (OC)
 Economic Development Department (EDD)

SUMMARY

Synopsis of HFI#2 Amendments

There were two amendments on the house floor. The first was to refine the definition of “food

processor” and require the director of the Department of Labor to report biannually on the effectiveness of the training wage on job turnover. The second was to remove the exemption for state and local government employees who are now exempt from the statewide minimum wage.

The definition of “food processor” was included in the substitute as any employer who is engaged in handling, drying, packing, processing, freezing or canning of any agricultural or horticultural commodity in its unmanufactured state. In the original food processor was not defined.

The second amendment extends the statewide minimum wage to state and local governments as well as private industry.

Synopsis of HBIC Substitute

The House Business and Industry Committee substituted HB258 with a new phase-in schedule for the minimum wage, exemptions certain employees, establishment of a methodology for inflation adjustment, a training wage and prohibition on local governments from establishing a higher minimum wage unless already enacted.

The new wage phase-in is over two years. Beginning January 1, 2007, the minimum wage increases to \$6.75 and beginning January 1, 2008, the wage increases to \$7.50 per hour. It will increase in multiples of 5 cents in 2009 and subsequent years by the lesser of 3 percent or the annual change as reported in August of each calendar year of the consumer price index for all urban consumers

The training wage is set at \$5.15 per hour or the federal minimum wage, whichever is higher. The employer is barred from displacing a current worker with a worker hired at the training wage. If the employer is found in violation by the Department of Labor, the employer will not be allowed to use the training wage for any employee.

The exemption for non-profits serving mentally retarded or developmentally disabled was expanded to include all non-profits.

All local governments will be prohibited from enacting a minimum wage that is higher than the statewide minimum wage unless there is already an ordinance in effect.

FISCAL IMPLICATIONS

Fiscal impacts for the minimum wage are difficult to determine. On the one hand, employees who receive an increase because they have wages that are less than \$7.50 will generate more income tax revenue and more gross receipts tax revenue as they spend their extra income. Also, if they previously qualified for benefits targeting low income workers, these benefits may decline, lowering the state’s appropriations. On the other hand, if employers feel they have to reduce their workforce, then those employees who are laid off will be paying less tax due to their reduced income and likely need more publicly provided benefits. In the next section there is more detail on the economic effects of increasing the minimum wage.

The Administrative Office of the Courts reports that the jurors are paid the state minimum wage for service. Increasing the minimum wage will increase the payments to jurors by \$279.6 thou-

sand in FY07 and \$690.3 thousand in FY08.¹ After FY08, the cost will increase with the CPI indexed wage.

Fiscal Impacts of Amendment to Include State and Local Government

HSD reports that their clients will most likely benefit from the increase in the wage. Even though food stamp recipients may see a decline in their benefit, the reduction in benefits will be more than matched by the increase in earnings. They report that the starting wage at HSD is over \$8.00 per hour and so there will be no impact due to the amendment.

Department of Corrections report they have no employee who is paid less than \$7.50 per hour and so the repeal of the exemption stipulated in the amendment will have no fiscal impact.

The State Personnel Office:

Data compiled are estimates based on current salaries, excluding temporary employees.

- A new appropriation of \$21,782 will be needed for FY07 to bring classified employees up to \$6.75 an hour.
- A new appropriation of \$45,413 will be needed for FY08 to bring classified employees up to \$7.50 an hour in addition to recurring costs needed for FY08 of \$43,564.

According to the UNM Bureau of Business and Economic Research, state and local government employment is expected to be 177.5 thousand in FY07 and 181.3 thousand in FY08. This represents approximately one-fifth of the non-agricultural employment in New Mexico. It should be noted that local government includes tribal government which are still exempted from the minimum wage law.

There are also likely to be impacts on all local governments, institutions of higher education and school districts to the extent that they have employees below the proposed wage.

SIGNIFICANT ISSUES

1. Employment Impacts. The bill will directly affect approximately 5,400 businesses, or 11 percent of all businesses, and several tens of thousands of employees. The table shows employees working in the most affected industries, but not all of them, will not be affected as many are already at or above the proposed wage. Most of the industries are service and retail trade related, which are typically low-wage, low-skill industries. As the table shows, the median wage (the wage at the midpoint of the distribution or at the 50th percentile) for food preparation and serving related occupations is \$6.64 per hour. The average or mean wages of these industries are significantly below the statewide average of \$14.52 per hour.

Table 1: Occupations with at least 10 percent of employees at less than \$7.50 per hour

Occupation	Employment	Mean Wage	Hourly Wage 10 th Percentile	Hourly Wage 25 th Percentile	Hourly Wage (50 th Percentile)
Food preparation and serving related occupations	72,410	\$7.36	\$5.57	\$5.97	\$6.64
Farming, fishing, and forestry occupations	4,130	7.40	5.60	5.95	6.54

¹ LFC analysis based on OAC data provided for previous analyses of the minimum wage.

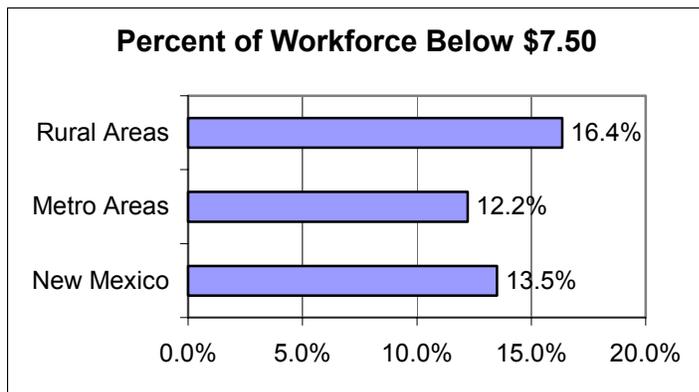
Building and grounds cleaning and maintenance occupations	29,710	8.79	5.85	6.69	8.08
Personal care and service occupations	23,150	9.01	6.07	7.16	8.80
Sales and related occupations	77,390	12.47	6.02	7.14	9.50
Healthcare support occupations	20,310	10.26	7.03	7.95	9.56
Transportation and material moving occupations	45,050	13.14	6.31	7.92	10.98
Arts, design, entertainment, sports, and media occupations	6,740	17.08	6.61	9.46	14.56
Office and administrative support occupations	120,510	12.29	7.16	8.89	11.32
Production occupations	31,960	13.37	6.9	8.53	11.36

Source: LFC analysis of NMDOL Data

The current law exempts many types of employees including state and local employees and high school students. This bill does not revise the definition of employee so those exemptions remain in tact. Even though these exemptions exist, there is considerable evidence that once a minimum wage is established, employers find it difficult to either find qualified employees to work for less than the minimum or divide their workforce between exempt and non exempt employees (ie, paying high school students less than other employees simply because they are exempt).

2. NMDOL Statistics on Directly Affected Workers

- Number of workers: 123,000 (13.5 percent of the workforce)
- 43.5 percent male, 56.5 percent female
- 34.6 percent white, 49.7 percent Hispanic
- 82.4 percent older than 20 years
- 59.7 percent work more than 35 hours per week
- 49.3 percent in retail trade or leisure and hospitality
- 58.3 percent in a sale/service occupation



3. Economic Theory. The impact of raising the minimum wage on employment is a hotly contested issue amongst economists. Conventional theory states that an artificial floor for any price is a market distortion and so will lead to an imbalance in the market, in this case disemployment. Most economists believe that increases in the minimum wage cause unemployment amongst some groups, particularly low skilled and younger workers. At issue, then, is not whether there is unemployment but how significant is the unemployment that is caused by the

wage increase and how is it offset by other positive impacts. The key to the argument is the *elasticity* of the demand for labor. In other words, how employers respond to changes in the wage. At very low wage levels near the federal minimum, there is evidence that employment is not significantly impacted by small changes in the wage.

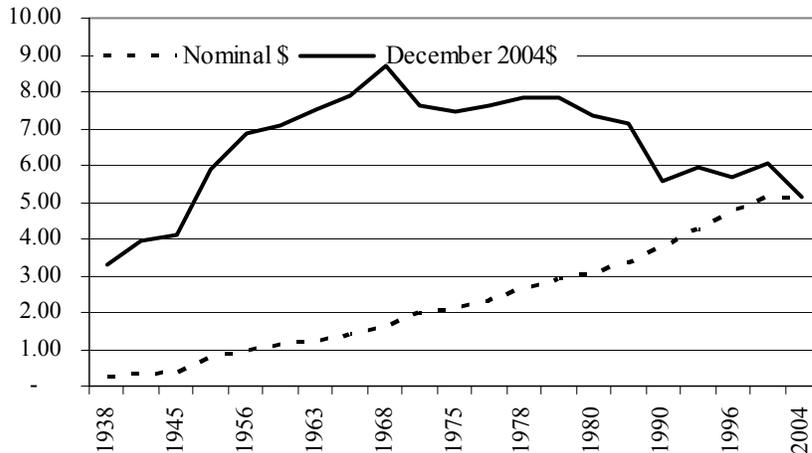
The market wage is where supply of labor equals demand for labor and the market clears. If the market wage is higher than the minimum, the effects of the minimum wage will be on the margins and therefore not likely to be significant. If the natural wage is lower than the minimum wage, supply of labor will exceed demand for labor and unemployment will result. The average wage, which is a rough proxy for the natural wage, in most industries is significantly above the current minimum wage and the proposed wage and so there will be little to no employment impact.

One way to assess the real impact of a minimum wage is to look back on previous minimum wage hikes to see if there were significant impacts on employment. In 1997, for example, the federal minimum wage was increased to \$5.15 but the economy was at the beginning of a boom where all levels of workers, including low skilled and unskilled, enjoyed employment and wage gains. Studies of the 90-91 federal minimum wage increase found no measurable impacts on employment. One of the arguments is that by the time political pressure mounts to actually increase the minimum wage, the economy has largely moved on without the legislation and the new minimum wage is merely increased to the new floor wage rather than increasing the floor wage.

One concern of businesses that pay wages around the proposed minimum wage is that when a new floor is set by raising the minimum wage, current employees' wages who are paid at or near that new level will need an increase. This will increase the costs to business even more than just the hiring of new people at the new wage. A University of California-Berkeley Institute of Industrial Relations study in September 2005 on their minimum wage indicated that the impact on business was similar for the indirect impact of wage increase for employees currently at or near their minimum wage. However, they also indicate that the combined impact is estimated to increase business operations costs by 1.3 percent.

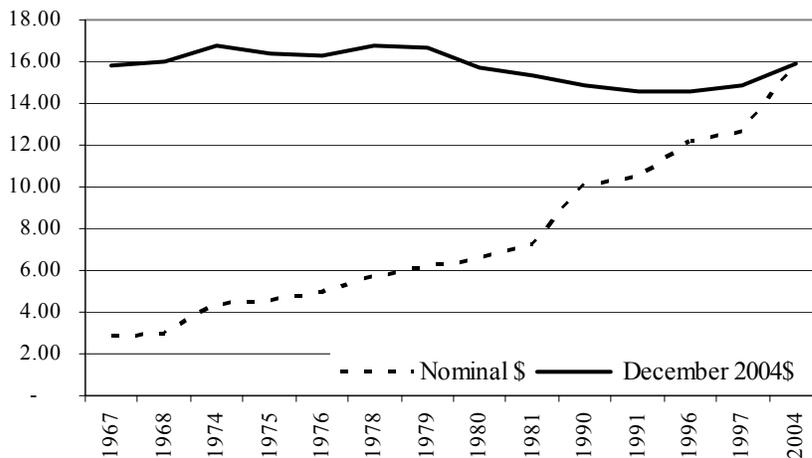
4. Real Minimum Wage. The real minimum wage, shown in Figure 1 as the solid line, is lower in 2005 than it has been since the 40s. Adjusted for inflation using the CPI-W index from the Bureau of Labor Statistics, the real minimum wage has averaged \$6.50 since 1938, significantly higher than the current federal minimum wage of \$5.15. Figure 2 shows the real and nominal average private sector hourly wage. Here the real wage has been fairly consistent over time.

Figure 1: Real and Nominal Minimum Wage



Source: BLS; Real Wage adjusted by CPI-W

Figure 2: Real and Nominal Average Private Hourly Wage



Source: BLS; Real Wage adjusted by CPI-W

RESOURCES ON THE WEB FOR MORE INFORMATION

National Resources:

- US Department of Labor www.dol.gov/esa/minwage/america.htm
- Economic Policy Institute www.epinet.org
- Employment Policy Institute www.epionline.org
- Policy Almanac www.policyalmanac.org/economic/minimum_wage.shtml
- US Chamber of Commerce www.uschamber.com
- ACORN www.livingwagecampaign.org

Local Resources:

- New Mexico Voices www.nmvoices.org
- Association of Commerce and Industry www.aci.nm.org

PERFORMANCE ISSUES

The Administrative Office of the Courts reports that some of their performance measurements may be affected if the increased wage interferes with their ability to conduct jury trials effectively.

ADMINISTRATIVE ISSUES

The Administrative Office of the Courts indicates that the Jury and Witness Fee Fund is not sufficient to absorb the increase in payments to jurors and will seek supplemental funding for the fund.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

	2007	2008	2008	Local Pre-emption	Tipped Employees		Other
					Minimum	Tips/Month	
CS/HB258/aHFI#1/aHFI#2	\$6.75	\$7.50	\$7.50	Yes	\$ 2.13	\$ 30.00	Exemptions for certain employees; Training wage; state and local government not exempt
SB449/aSCORC	5.75	6.00	6.15	Yes	2.13	30.00	Training Wage
SB462	7.50	7.50	7.50	No	3.10	30.00	Busines Credit
SB746	6.00	6.50	7.00	Yes	2.13	30.00	Training Wage and health insurance credit

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