

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

<b>SPONSOR</b> <u>Altamirano</u>	<b>ORIGINAL DATE</b> <u>1/27/06</u>	<b>LAST UPDATED</b> <u>2/15/06</u>	<b>HB</b> _____
<b>SHORT TITLE</b> <u>Phased Minimum Wage Increase</u>			<b>SB</b> <u>449/aSPAC/aSCORC/aSFC/aSFL#1/aHLHRC</u>
			<b>ANALYST</b> <u>Francis</u>

### REVENUE (dollars in thousands)

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

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with HB258, SB462

### SOURCES OF INFORMATION

LFC Files  
 NM Department of Labor (NMDOL)

### SUMMARY

#### Synopsis of HLHRC Amendment

The House Labor and Human Resources Committee amended Senate Bill 449 as amended in the following ways:

1. Strike Senate Floor amendment 1.
2. Strike Senate Finance Committee amendments.
3. Remove exemption for state and local governments.
4. Change the exemption for food processing employees to require employers to obtain a certificate from the NMDOL. The certificate would require the employer to have a resolution from the local governing body supporting continued exemption from the minimum wage. The employer also would have to demonstrate hardship and meet any other requirements determined by NMDOL.
5. Adopts a training wage.
6. Changes the expiration of the preemption of local ordinances from 2011 to 2010.
7. Clarifies that an ordinance that is self executing or advisory is protected.

The amendments essentially go back to the original bill which proposed a minimum wage that is phased in over three years and add in a training wage, an exemption for food-processing employees with certain requirements, and applying the minimum wage to state and local governments.

Synopsis of SFL#1 Amendment

The Senate Floor #1 amended Senate Bill 449 as amended to repeal the exemption for state and local governments from the minimum wage. Current law exempts governments and this amendment would mandate at least the minimum wage herein would apply to the state and local governments. A similar amendment was included in House Bill 258 which has passed the house.

Synopsis of SFC Amendment

The Senate Finances Committee amended Senate Bill 449 as amended by the Senate Corporations and Transportation Committee in the following ways:

1. Changed the local preemption by deleting the expiration of the temporary provision and setting the maximum wage rate at \$9.50 for local governments who have already enacted a higher wage. This prohibits local governments other than the City of Santa Fe from adopting a higher rate than the statewide rate and the City of Santa Fe cannot raise their living wage above its current rate of \$9.50.
2. Exempts employees engaged in milk production and any employee engaged in handling, drying, packing, packaging, processing, freezing or canning of any agricultural or horticultural commodity in its unmanufactured state.
3. Changes the phase-in schedule. As of January 1, 2007, the minimum wage is \$6.00 per hour. As of January 1, 2008, employees who have been continuously employed by the same employer for one year must earn more than \$6.75. As of January 1, 2009, employees who have been continuously employed for two years by the same employer must earn at least \$7.50 per hour.

Synopsis of SCORC Amendment

The Senate Corporations and Transportation Committee amended Senate Bill 449 as amended by the Senate Public Affairs Committee reverting back to the original Senate Bill 449 as introduced.

Synopsis of Original Bill

Senate Bill 449 raises the statewide minimum wage to \$7.50 per hour phased in over three years. Effective January 1, 2007, the wage rises to \$6.50. Effective January 1, 2008, the wage rises to \$7.00. Effective January 1, 2009, the wage is set at \$7.50. The minimum wage is currently equal to the federal minimum wage of \$5.15 per hour except in the City of Santa Fe where the minimum wage is \$9.50 per hour.

SB 449 includes a provision that would ban local governments from imposing a wage higher than the statewide minimum unless they have a law or ordinance imposing a higher wage prior to February 1, 2006. This would only affect the City of Santa Fe. This provision expires December 31, 2011.

**FISCAL IMPLICATIONS**

*Fiscal Impacts of Original Bill*

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 the proposed wage will generate more income tax revenue and more gross receipts tax revenue as they spend their extra in-

come. Also, if they previously qualified for benefits targeting low income workers, than those 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.

**SIGNIFICANT ISSUES**

**1. Employment Impacts.** As Table 1 shows, the bill will affect approximately 5,400 businesses, or 11 percent of all businesses, and several tens of thousands of employees. The table shows 96,065 employees working in these industries but not all of them will 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. These industries are significantly below the statewide average of \$14.52 per hour.

It is unknown at this time how many employees have been with the same employer for over one year. NMDOL estimates that employee turnover is approximately 13 percent. This is higher in industries characterized by low wages. Administrative, support, accommodation and food service industries have almost 20 percent turnover. Construction has over 15 percent turnover. It is likely that at the current minimum wage, there is a high degree of employment transition and so the number of employees affected by the minimum wage will be substantially fewer than the 100,000 that would be affected without the amendment.

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

Occupation	Employment	Mean Wage	Hourly Wage 10 <sup>th</sup> Percentile	Hourly Wage 25 <sup>th</sup> Percentile	Hourly Wage (50 <sup>th</sup> Percentile)
Food preparation and serving related occupations	72410	\$7.36	\$5.57	\$5.97	\$6.64
Farming, fishing, and forestry occupations	4130	7.40	5.60	5.95	6.54
Building and grounds cleaning and maintenance occupations	29710	8.79	5.85	6.69	8.08
Personal care and service occupations	23150	9.01	6.07	7.16	8.80
Sales and related occupations	77390	12.47	6.02	7.14	9.50
Healthcare support occupations	20310	10.26	7.03	7.95	9.56
Transportation and material moving occupations	45050	13.14	6.31	7.92	10.98
Arts, design, entertainment, sports, and media occupations	6740	17.08	6.61	9.46	14.56
Office and administrative support occupations	120510	12.29	7.16	8.89	11.32
Production occupations	31960	13.37	6.9	8.53	11.36

Source: LFC analysis of NMDOL Data

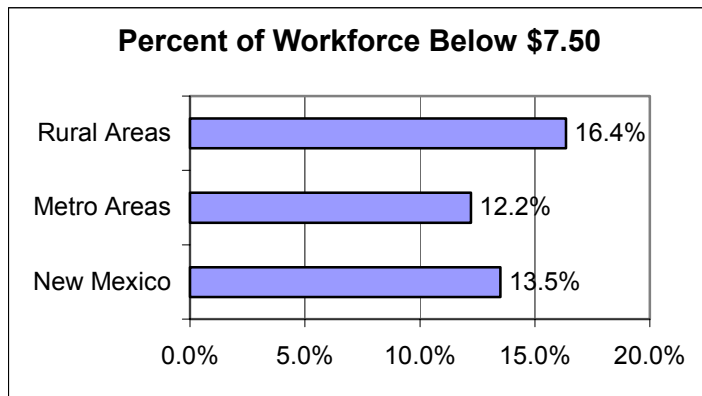
The current law exempts many types of employees including state and local employees and high school students. This bill does not revise the definition of employee so those exemptions remain in tact. Even though these exemptions exist, there is considerable evidence that once a minimum wage is established, 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).

The amendment would expand the definition of agricultural employees to include dairy workers and food processing workers.

## 2. NMDOL Statistics on Directly Affected Workers (ORIGINAL BILL – Number with amendment likely much lower)

- 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 among 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 dis-employment. 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.

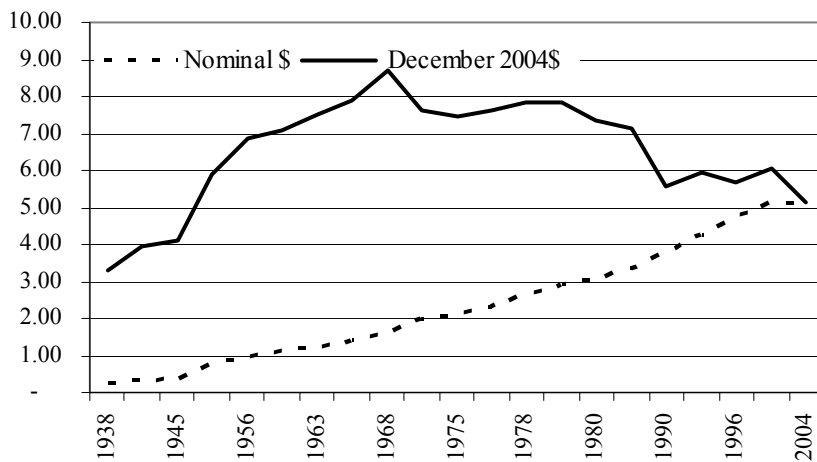
One way to assess the real impact of a minimum wage is to look back on previous minimum

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.

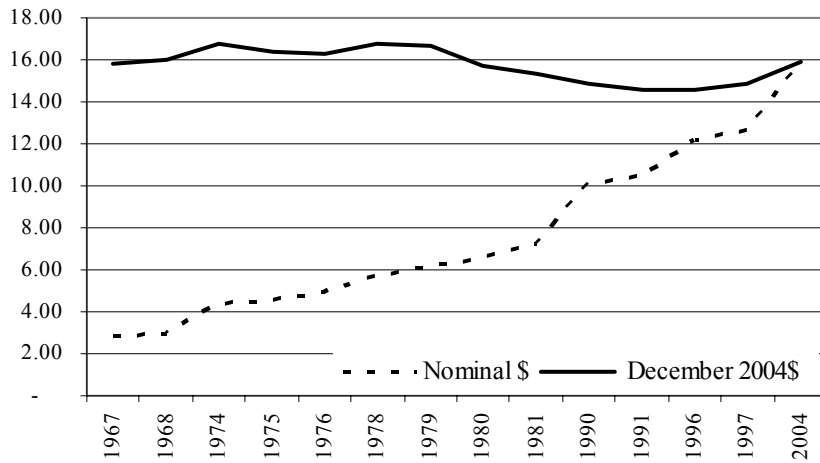
**3. Real Minimum Wage.** The real minimum wage, shown in Figure 1 as the solid line, is lower in 2005 than it has been since the 40s. Adjusted for inflation using the CPI-W index from the Bureau of Labor Statistics, the real minimum wage has averaged \$6.50, or higher than the proposed minimum in SB449 as amended, 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

**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.

There will have to be an extra effort on the part of the Department of Labor to verify the eligibility of workers who should receive the minimum wage.

**CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP**

	Tipped Employees						
	2007	2008	2009	Local Pre-emption	Minimum	Tips/Month	Other
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/ aS- PAC/aSCORC/aaSFC/aSFL# 1/aHTRC	6.00	6.75	7.50	Yes, Temporary	2.13	30.00	Exemptions for certain employees; Training wage; state and local government

								not exempt
SB746	6.00	6.50	7.00	Yes	2.13	30.00		Training Wage and health insur- ance credit
SB462	7.50	7.50	7.50	No	3.10	30.00		Business Credit

NF/mt.nt:yr