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## FISCAL IMPACT REPORT

**ORIGINAL DATE** 1/31/06  
**LAST UPDATED** \_\_\_\_\_ **HB** \_\_\_\_\_

**SPONSOR** Sanchez, M.

**SHORT TITLE** Minimum Wage Increase and Business Tax Credit **SB** 462

**ANALYST** Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(20,851.3)	(36,489.7)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

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

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		412.0	825.0	1,237.0	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Relates to HB285  
 Conflicts with SB449

#### SOURCES OF INFORMATION

LFC Files  
 NM Department of Labor (NMDOL)  
 Corrections Department (CD)  
 Human Services Division (HSD)  
 Administrative Office of the Courts (AOC)  
 Department of Health (DOH)

#### Responses Received From

NM Department of Labor (NMDOL)  
 Corrections Department (CD)  
 State Personnel Office (SPO)  
 Human Services Division (HSD)  
 Administrative Office of the Courts (AOC)  
 Department of Health (DOH)

## SUMMARY

### Synopsis of Bill

Senate Bill 462 raises the statewide minimum wage to \$7.50 per hour effective January 1, 2007. 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 462 includes a provision that would allow a tax credit for small businesses affected by the increase equal to the cost of increasing employees' wages up to \$7.50 multiplied by 40 percent in 2007, 30 percent in 2008, and 20 percent in 2009. This credit is repealed after 2009 but the credit can be carried forward for three years.

## 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 the proposed wage 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, 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 ("Significant Issues"), there is more detail on the economic effects of increasing the minimum wage.

The credit proposed by SB 462 would be significant. It is a credit against the combine reporting (gross receipts, withholding and compensating taxes). There are approximately 123,000 employees affected by a minimum wage of \$7.50. The average wage of these employees whose average wage is less than \$7.50 is \$6.37 per hour. Assuming that 59 percent of the workers work 35 hours and the other 41 percent work 20 hours and 50 percent of the businesses qualify for the small business credit, the total relief from combined taxes (gross receipts, compensating, and withholding) for business is \$20.8 million in FY07, assuming that tax years divide evenly over fiscal years, \$36.5 million in FY08 and \$26.1 million in FY09 when it phases out.

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 \$235.9 thousand in FY07 and \$559.2 thousand in FY08. After FY08, the cost will increase with the CPI indexed wage.

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.

The State Personnel Office reports fiscal impacts for bringing state employees up to the proposed wages for each year. These are hypothetical fiscal impacts since the current law exempts state employees from the minimum wage and SB 449 does not address state employees.

- In FY07, a new appropriation of \$6,891 in general fund will be needed to bring state employees up to \$6.50 per hour.

- In FY08, a new appropriation of \$21,782 in general fund will be needed in addition to \$13,782 of recurring costs to bring employees up to \$7.00 per hour.
- In FY09, a new appropriation of \$38,523 in general fund will be needed in addition to \$57,346 of recurring costs to bring employees up to \$7.50 per hour.

**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.

**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

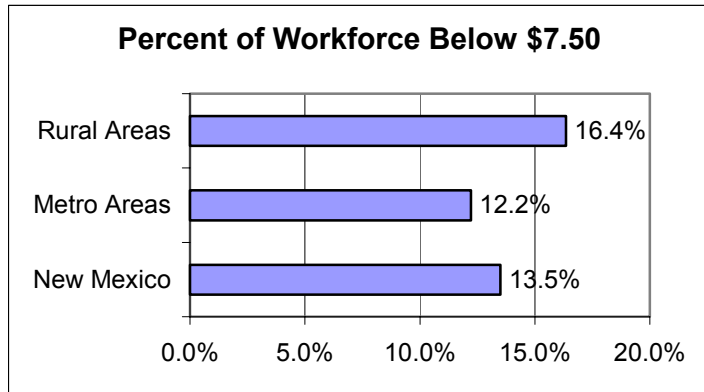
Source: LFC analysis of NMDOL Data

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).

**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.

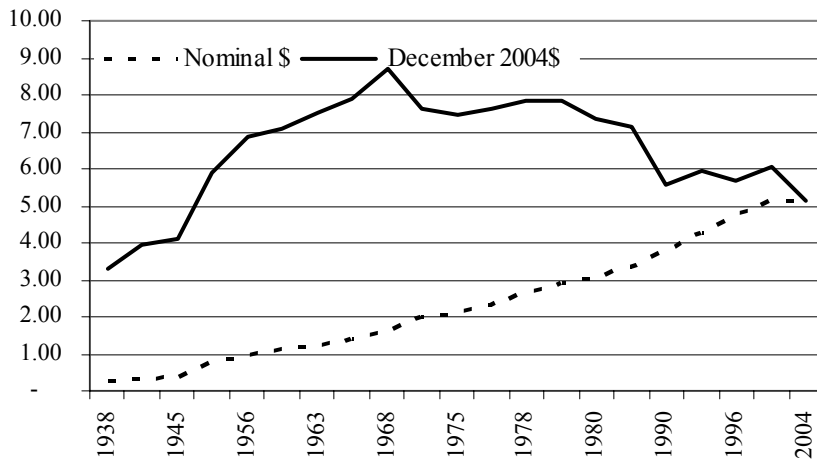
One way to assess the real impact of a minimum wage is to look back on previous minimum wage hikes to see if there were significant impacts on employment. In 1997, for example, the federal minimum wage was increased to \$5.15 but the economy was at the beginning of a boom where all levels of workers, 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 In-

dustrial 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.

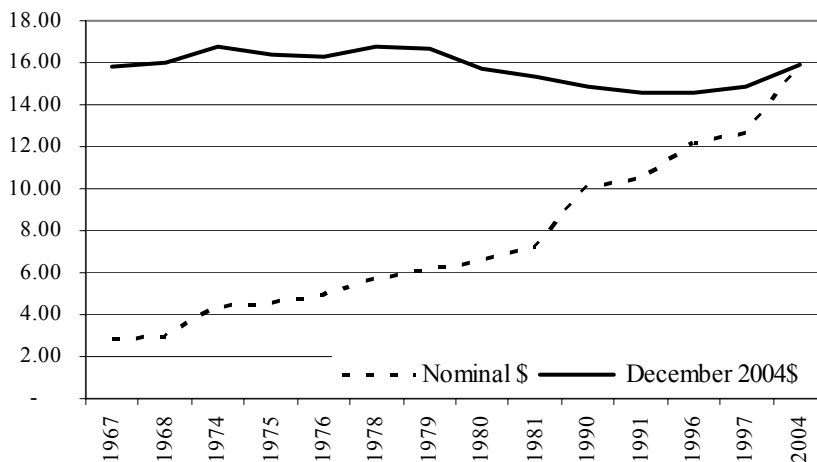
**4. Real Minimum Wage.** The real minimum wage, shown in Figure 1 as the solid line, is lower in 2005 than it has been since the 40s. Adjusted for inflation using the CPI-W index from the Bureau of Labor Statistics, the real minimum wage has averaged \$6.50 since 1938, significantly higher than the 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

## 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**

Tipped Employees

	2007	2008	2008	Local Pre-emption	Minimum	Tips/Month	Other
HB285	\$ 7.50	\$ 7.50	\$ 7.50	No	\$ 3.10	\$ 45.00	
SB449	6.50	7.00	7.50	Yes	2.13	30.00	
SB462	7.50	7.50	7.50	No	3.10	30.00	Busines Credit

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