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## FISCAL IMPACT REPORT

ORIGINAL DATE 2/5/06  
 LAST UPDATED 2/6/06

SPONSOR Ingle HB \_\_\_\_\_  
 RAISE MINIMUM WAGE & INSURANCE TAX

SHORT TITLE CREDITS SB 746

ANALYST Francis

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY06	FY07	FY08		
	(110,000.0)	(220,000.0)	Recurring	General Fund

(Parenthesis ( ) Indicate Expenditure Decreases)

Conflicts with SB 345, SB 606, SB 544 (Employer Sponsored Health Credits)  
 Conflicts with HB 258, SB 449, SB 462 (Minimum Wage)

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

	FY06	FY07	FY08	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
<b>Total</b>		148.5	408.1	556.6	Recurring	General Fund: Office of Courts

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files  
 Taxation and Revenue Department (TRD)  
 IRS Statistics of Income (IRSSI)

Responses Received From  
 NM Department of Labor (NMDOL)  
 Department of Corrections (DOC)  
 State Personnel Office (SPO)  
 Human Services Division (HSD)  
 Office of the Courts (OC)  
 Taxation and Revenue Department (TRD)

## SUMMARY

### Synopsis of Bill

Senate Bill 746 phases in a minimum wage over several years and provides employers an income tax credit for providing insurance. The wage is increased to \$6.00 per hour January 1, 2007; increased to \$6.50 per hour on January 1, 2008; \$7.00 per hour January 1, 2009; and \$7.50 per hour after January 1, 2010. An employer may pay a training wage to employees for their first six months of work. That wage is \$5.15 per hour in 2007, \$6.00 per hour in 2008, \$6.50 per hour in 2009 and \$7.00 in 2010 and subsequent years. The wage rate for tipped employees, if their tips are counted as part of their wages, must be equivalent to the minimum wage. There is a prohibition on local governments enacting a wage higher than the minimum and language that keeps any local government who has already enacted a higher minimum wage (i.e., City of Santa Fe) from raising it beyond \$9.50 per hour.

The employer-sponsored health insurance credit is for 50 percent of the amount of the employer premium for providing health insurance to employees.

## FISCAL IMPLICATIONS

### **Minimum Wage:**

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, then 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.

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 \$148.5 thousand in FY07 and \$408.6 thousand in FY08.

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.

### **Employer-sponsored Health Insurance Credit:**

There are approximately 55,000 businesses in New. Using a calculator provided by TRD, the population expected to be covered is 450,000.

Average family health insurance costs \$9,299 per year per family, \$6,401 for a couple and \$3,361 for a single. Using these assumptions, a 50% credit on the employer's portion of the insurance premium, which ranges from 73 percent to 80 percent, is expected to reduce personal income tax revenues by \$1.2 billion per year. However, the credit is not refundable and so is limited to actual liability.

TRD maximum tax liability to be approximately \$220 million per year using ratios derived from

IRS Statistics of Income for personal and corporate income tax returns and a 5 percent effective tax rate. In FY06, the impact would be half of this amount assuming the tax year is evenly divided amongst fiscal years.

**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

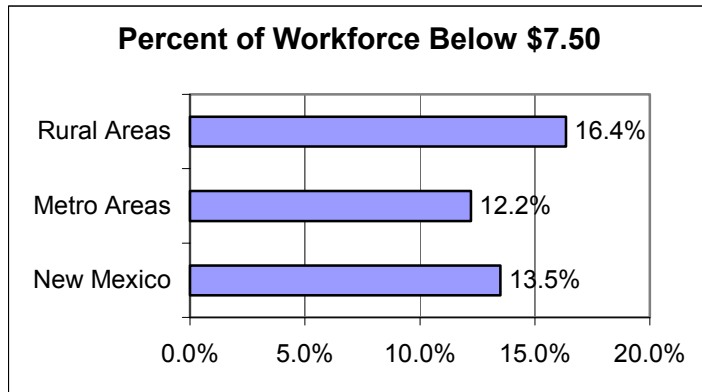
Source: LFC analysis of NMDOL Data

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 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.

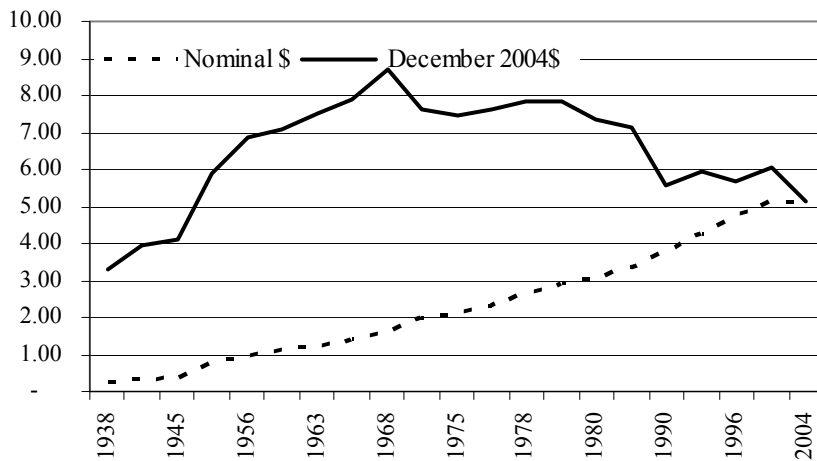
One way to assess the real impact of a minimum wage is to look back on previous minimum wage hikes to see if there were significant impacts on employment. In 1997, for example, the federal minimum wage was increased to \$5.15 but the economy was at the beginning of a boom where all levels of workers,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

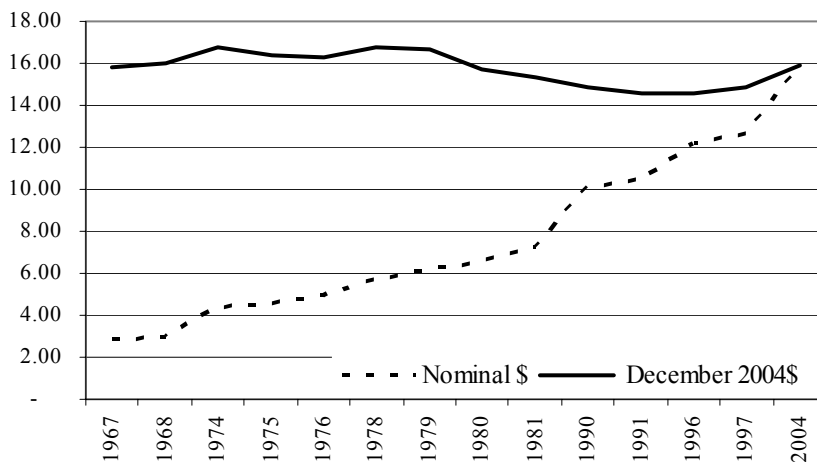
**4. Real Minimum Wage.** The real minimum wage, shown in Figure 1 as the solid line, is lower in 2005 than it has been since the 40s. Adjusted for inflation using the CPI-W index from the Bureau of Labor Statistics, the real minimum wage has averaged \$6.50 since 1938, significantly higher than the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

**5. Employer-sponsored health coverage.** Nationally, health insurance premiums grew tremendously over the last decade and though the rate of growth has slowed in the last two years, it remains near 10 percent. That compares with inflation at approximately 3 percent and the economy which is also growing at about 3 percent. As the premiums increase, the number of employers offering health insurance decreases. According to the Kaiser Family Foundation, which tracks a host of health related issues, the percentage of employers offering health insurance has dropped from 69 percent to 60 percent in the last few years.

In NM, affordable health insurance is more of a problem than nationally. The burden of providing health care access has shifted from the employer to the government, particularly for children whose parents cannot get health insurance at work. States have recently been trying to reverse that and one way is to offer tax incentives that encourage employers to provide access to health insurance. However, the cost of health insurance is still an insurmountable obstacle for many smaller businesses and if they provide it they have to pass on a significant share of the premium to the employee.

**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	
HB258/HBICS	\$6.75	\$7.50	\$7.50	Yes	\$ 2.13	\$ 30.00	Exemptions for certain employees; Training wage; Inflation adjustment;
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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