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FISCAL IMPACT REPORT

ORIGINAL DATE 2/5/07

SPONSOR B. Lujan LAST UPDATED 2/25/07 HB 759/aHLC

SHORT TITLE Increase Minimum Wage SB _____

ANALYST Francis

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
		\$38.6	\$49.0	\$87.6	Recurring	General Fund – SPO
		\$693.5	\$880.9	\$1,574.4	Recurring	Jury and Witness Fee Fund
Total						

(Parenthesis () Indicate Expenditure Decreases)

Duplicates SB 324 as amended

SOURCES OF INFORMATION

LFC Files
 Economic Policy Institute (EPI)
 Employment Policies Institute (EPI)
 New Mexico Department of Labor (NMDL)

Responses Received From

NM Department of Labor (NMDL)
 Children Youth and Families Department (CYFD)
 Human Services Department (HSD)
 Administrative Office of the Courts (AOC)
 State Personnel Office (SPO)

SUMMARY

Synopsis of HLC Amendment

The House Labor and Human Resources Committee amended House Bill 759 to restore the exemption from the minimum wage for employees of religious, charitable, and non-profit organizations who reside on the premises.

Synopsis of Original Bill

House Bill 759 raises the statewide minimum wage to \$6.50 on July 1, 2007, and to \$7.50 on January 1, 2008, and increases the wage each January 1st by an inflation factor determined by the consumer price index published by the US Bureau of Labor Statistics. The bill eliminates all exemptions from the definition of “employee”:

- Domestic employee who works in a private home.
- Person who works as an executive, administrative, professional, foreman, superintendent, or supervisor.
- Employee of the United States, the state, or a political subdivision of the state,
- An individual who works for an educational, charitable, religious, or nonprofit where person works on a voluntary basis,
- Persons paid based on piecework, flat rate schedule, or commission
- Students who work after school hours or on vacation,
- Apprentices and learners as defined by law,
- Persons 18 and under who are not enrolled in school or graduate of a secondary school,
- Person employed by ambulance service,
- GI Bill trainees,
- Seasonal employees based on valid certificate from the state labor commissioner,
- Agricultural or range livestock employee, and
- Employee of charitable, religious or nonprofit that serves mentally, emotionally, or developmentally disabled persons and the employee who resides on the premises.

The effective date is July 1, 2007.

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 there is more detail on the economic effects of increasing the minimum wage.

Different agencies have indicated specific operating budget items that are impacted by the higher wage rate:

- NM Department of Labor reports that there will be a fiscal impact on state and local governments who will now be included in the minimum wage act.
- The State Personnel Office (SPO) reports that there are 22 employees below \$6.50 and 86 below \$7.50. It will cost \$38.6 thousand in FY07 and \$49 thousand in FY08 to bring them up to the minimum.
- The Administrative Office of the Courts reports that they will need \$253 thousand in FY08 and \$693.5 thousand in FY08 to for the jury and witness fee fund based on 375,000 hours of jury service in Fy06. They note that the LFC recommendation included an

increase of \$412.5 thousand for jury costs in FY08.

SIGNIFICANT ISSUES

HB759 eliminates all exemptions from the minimum wage law. While most of these exemptions are for groups of employees that likely earn at least the minimum wage, some, such as primary and secondary school students who work after school hours or on vacation, seasonal workers, camp workers, some agricultural workers and livestock workers may be below the current minimum wage and will receive an even larger increase. It will be difficult to monitor those workers earning a piece rate wage rather than an hourly wage.

HB759 has no preemption clause that preempts local governments from establishing a wage rate higher than the minimum. This allows the cities of Santa Fe and Albuquerque and Bernalillo County to maintain and increase their minimum wages if they choose. To date, these are the only local governments to establish minimum wages higher than the state rate.

The Numbers. Data for this section is largely derived from an Economic Policy Institute (EPI) study on the minimum wage that has been provided by the NM Department of Labor. More information about EPI can be found on their website at <http://www.epinet.org>. EPI has gone through unpublished data from the US Bureau of Labor Statistics (BLS) Current Population Survey (CPS), a monthly survey of over 50,000 households, to develop the data in the tables shown here. EPI is a non profit in Washington DC primarily funded primarily by foundation grants but also by labor unions. They produce a widely respected report titled “The State of Working America” annually which contains research on all types of wage, income, and employment issues.

Table 1 shows the labor impacts of increasing the minimum wage to \$7.50 per hour. Twenty percent, or 161,000 of the 818,000, workers are likely to be affected with an average raise of \$0.78 per hour. About 47 percent of those affected are directly affected meaning they are currently below the proposed minimum and will see an immediate increase of on average \$1.19 per hour. The other 53 percent are indirectly affected meaning they will see a boost in wages as those below them on the pay scale get moved up. Almost 60 percent of those affected are working full time and only 17 percent are under the age of 20. The occupations in the service industry will be most affected with 37 percent of those employed in this industry seeing almost \$1/hour increase or over \$2,000 a year for a full time worker. NMDOL reports that the first phase to \$6.50 per hour will affect about 40,000 directly.

Table 1: Affected workers in New Mexico

	Number of workers			Percent of total		
	Affected workers	All workers	Share affected	Affected workers	All workers	Average raise
Workers	161,000	818,000	20%	100%	100%	\$0.78
Directly affected	75,000			47%	9%	\$1.19
Indirectly affected	86,000			53%	11%	\$0.42
Male	72,000	432,000	17%	45%	53%	\$0.81
Female	89,000	385,000	23%	55%	47%	\$0.75
White	69,000	408,000	17%	42%	50%	\$0.84
Hispanic	70,000	312,000	23%	44%	38%	\$0.72
20 years and older	134,000	779,000	17%	83%	95%	\$0.72
Full-time (35+ hrs.)	95,000	669,000	14%	59%	82%	\$0.68
Other industries	91,000	638,000	14%	56%	78%	\$0.71
Service	51,000	138,000	37%	32%	17%	\$0.96
Other occupations	81,000	596,000	14%	50%	73%	\$0.67
Married	57,000	428,000	13%	36%	52%	\$0.71

Source: Economic Policy Institute analysis of unpublished Current Population Survey data.

Increasing the minimum wage is not without cost to business. The estimate of those costs are controversial and often rely on anecdotes rather than statistics. However, most studies have shown relatively minor impacts to business. EPI estimates that, not surprisingly, the leisure and hospitality industry will be most impacted but the estimated impact is an increase of one percent. For all workers, the increase is 0.2 percent as a share of sales.

Table 2: Cost to Business

	Total annual cost	Total annual earnings	Total cost as share of earnings	Total annual sales	Total cost as share of sales
Workers	209	30,574	0.68%	103,381	0.20%
Directly affected	143	30,574	0.47%	103,381	0.14%
Indirectly affected	66	30,574	0.22%	103,381	0.06%
Retail trade	40	2,626	1.52%	26,019	0.15%
Leisure and hospitality	57	1,543	3.67%	5,679	1.00%
Other industries	112	26,405	0.43%	71,683	0.16%

All figures are in millions of dollars.

Source: Economic Policy Institute analysis of unpublished Current Population Survey data.

Last year when a similar bill was introduced by Senator Ben Altamirano, LFC economists studied NM Department of Labor data on employees by wage. Table 2 shows that even in the occupations with the highest concentrations of low wage employees, the mean or average wage is near the proposed minimum. In the “food preparation and serving” occupations, the mean wage was \$7.36. However, the mean includes higher paid restaurant managers and the more accurate variable is the median wage or the wage at the 50th percentile. The median wage for this occupation, where half of the workers are below and half are above, was \$6.64 per hour indicating that more than half of these workers will benefit. Overall, only two occupations have median wages below the proposed minimum.

Table 2: 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	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

Children Youth and Families Department (CYFD) reports that raising the minimum wage would have a “significant impact on the rates and depth of family and child poverty among working families.” NM is consistently ranked among the worst states for childhood poverty indicators.

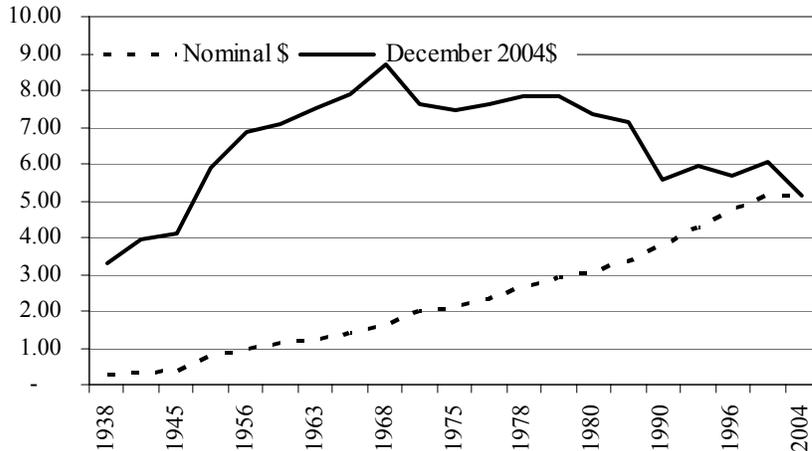
Recent Studies. The Department of Finance and Administration (DFA) has provided summaries of two recent studies of the effects of minimum wage laws:

Recent studies of minimum wage change consequences include a UNM Bureau of Business and Economic Research study report of June, 2006 on the City of Santa Fe wage change in June of 2004 from \$5.15 to \$8.50. This can be found at <http://www.unm.edu/~bber/pubs/SFLWpt3.pdf>. This study followed Card and Krueger's methods (described below) and found better economic performance post-wage increase in Santa Fe than in a non-wage increase control area (Albuquerque).

A Florida International University study report of May, 2006 on the State of Florida wage change in May, 2005, found at http://www.risep-fiu.org/reports/Florida_Minimum_Wage_Report.pdf, found a lower percentage increase in jobs in the service sector (hospitality, food service, accommodations) than in the goods producing sector within Florida.

Federal legislation. The Federal government has imposed a minimum wage since 1938 when the wage was set at \$0.25 per hour. The wage has been increased 25 times since then most recently in 1997 when the wage was increased to \$5.15 per hour. Congress is now considering an increase and the US House of Representatives has passed H.R. 2 which raises the minimum wage to \$7.25 per hour. Figure one shows the minimum wage over time in 2004 dollars and nominal dollars. As the chart shows, the real wage is at its lowest point since 1968 when the wage had the purchasing power of almost \$9/hour in 2004 dollars.

Figure 1: Real and Nominal Minimum Wage



Source: BLS; Real Wage adjusted by CPI-W

The congressional budget office (CBO) estimates that the impact on private sector would be \$1.5 billion in FFY2008 growing to \$5.7 billion in FFY2010. The current GDP estimate for FF2010 is \$17,395 billion. In other words, CBO is estimating the impact will be 0.03 percent or virtually zero. The Senate has yet to act on the legislation.

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 the California 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, very similar to the results reported by EPI above.

Other states. Table three shows all of the states and their minimum wage laws. Twenty-nine states now have a higher minimum wage than the federal. Ten of those adjust the wage for inflation as HB759 is proposing.

Table 3: Minimum Wage Laws in the States

(As of Nov. 8, 2006)

State	2006 State Minimum Wage (as of 11/08/06)	Planned 2007 State Minimum Wage	Planned 2008 State Minimum Wage
Alaska	7.15	7.15	7.15
Arizona	Federal level	6.75*	Inflation Adjusted
Arkansas	6.25	6.25	6.25
California	6.75	7.50	8.00
Colorado	Federal level	6.85*	Inflation Adjusted
Connecticut	7.40	7.65	7.65
Delaware	6.15	6.65	7.15
District of Columbia	7.00	7.00	7.00
Florida	6.40*	6.67*	Inflation Adjusted
Hawaii	6.75	7.25	7.25
Illinois	6.50	6.50	6.50
Maine	6.75	6.75 (will increase to \$7.00 on 10/1/07)	7.00
Maryland	6.15	6.15	6.15
Massachusetts	6.75	7.50	8.00
Michigan	6.95	6.95 (will increase to \$7.15 on 7/1/07)	7.15 (will increase to \$7.40 on 7/1/08)
Minnesota	6.15	6.15	6.15
Missouri	Federal level	6.50*	Inflation Adjusted
Montana	Federal level	6.15*	Inflation Adjusted
Nevada	Federal level	6.15*	Inflation Adjusted
New Jersey	7.15	7.15	7.15
New York	6.75	7.15	7.15
North Carolina	Federal level	6.15	6.15
Ohio	Federal level	6.85*	Inflation Adjusted
Oregon	7.50*	7.80*	Inflation Adjusted
Pennsylvania	Federal level	6.25 (will increase to \$7.15 on 7/1/07)	7.15
Rhode Island	7.10	7.40	7.40
Vermont	7.25*	Inflation Adjusted	Inflation Adjusted
Washington	7.63*	7.93*	Inflation Adjusted
Wisconsin	6.50	6.50	6.50

*=State minimum wage adjusted annually for inflation.

Source: Economic Policy Institute

DFA has provided a summary of positions by supporters and opponents of minimum wage laws:

Supporters of the minimum wage claim it has these effects:

- Increases the average living standard.
- Reduces worker exploitation.
- Can increase the economic efficiency of the economy where labor markets exhibit a high degree of market power on the part of employers.
- Stimulates consumption, by putting more money in the hands of low-income people who spend their entire paychecks.
- Stimulates economic growth by discouraging labor-intensive industries, thereby

encouraging more investment in capital and training.

- Increases the work ethic of those who earn very little, as employers demand more return from the higher cost of hiring these employees.
- Decreases the cost of government social welfare programs by increasing incomes for the lowest-paid.
- Prevents in-work benefits (e.g. the Earned Income Tax Credit and the Working Tax Credit) from causing a reduction in gross wages which would otherwise occur if labor supply is not perfectly inelastic.
- Provides a "shock" which forces employers to use a high productivity strategy rather than a high labor turnover strategy, therefore improving the stock of human capital in an economy.
- Creates incentive to work (contrast with welfare transfer payments).
- Minimum wage is administratively simple; workers only need to report violations of wages less than minimum, minimizing a need for a large enforcement agency.

Opponents of the minimum wage claim it has these effects:

- Reduces demand for workers. This may manifest itself through a reduction in the number of hours worked by individuals, or through a reduction in the number of jobs.
- Reduces profit margins of business owners employing minimum wage workers.
- Increases prices for customers of employers of minimum wage workers, which would pass through to the general price level.
- Reduces economic growth by skewing factor-choice incentives away from the optimum choice.
- Decreases opportunities for low-skilled workers to gain the training and responsibility they need to move up the wage ladder.
- Increases the cost of government social programs due to assistance programs aiding the laid-off workers.
- Is less effective at reducing social exclusion than some other alternatives, for example training programs.
- Is less effective than the Earned Income Tax Credit at targeting the truly needy, and is more damaging to businesses.
- Decreases human capital by encouraging people to enter the job market instead of pursuing further education.
- Reduces the international competitiveness of a nation by raising the cost of factor inputs, and therefore output, relative to the level of other countries. It is argued that this is particularly problematic in developing economies.
- Is a limit on the freedom of both employers and employees. Minimum wage laws make it illegal for employers to pay workers less than the minimum wage

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. Those increased costs are reflected in the table “Operating Impacts”.

Human Services Division believes there will be no fiscal impact. Some low-wage recipients of food stamps and other public assistance may have benefits cut but the loss will likely be offset by the increase in wages.

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.

CONFLICTS

HB 759 duplicates SB 324 as amended.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

If the federal government passes a minimum wage without passage of this bill, the state minimum wage will be lower than the federal. This would affect a small group of employees who are not covered by the federal minimum wage.

NF/nt