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FISCAL IMPACT REPORT

SPONSOR <u>Altamirano</u>	ORIGINAL DATE <u>1/30/07</u>	HB _____
	LAST UPDATED <u>2/2/07</u>	
SHORT TITLE <u>Increase Statewide Minimum Wage</u>	SB <u>324/aSFC</u>	
ANALYST <u>Francis</u>		

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
		14.1	49.0	63.1	Recurring	General Fund – SPO
		253	693.5	946.5	Recurring	Jury and Witness Fee Fund
Total						

(Parenthesis () Indicate Expenditure Decreases)

SOURCES OF INFORMATION

LFC Files
Economic Policy Institute (EPI)
Employment Policies Institute
NM Department of Labor (DOL)

Responses Received From
NM Department of Labor (DOL)
Children, Youth and Families Department (CYFD)
Human Services Department (HSD)
Administrative Office of the Courts (AOC)
State Personnel Office (SPO)

SUMMARY

Synopsis of SFC Amendment

The Senate Finance Committee (SFC) amended Senate Bill 324 to remove the exemption for persons employed by ambulance services.

Synopsis of Bill

Senate Bill 324 raises the statewide minimum wage to \$6.50 in calendar year 2008 and \$7.50 in 2009 and beyond. The bill exempts employees engaged in various agricultural and horticultural

activities, including milk production, from the minimum wage. Local governments are preempted from passing a higher minimum wage until January 1, 2013, except for governments who have already passed a local minimum wage. The minimum wage would apply to all state and local government employees.

SB324 also addresses the wages for employees who depend on tips to keep the total wage, the minimum \$2.13 per hour plus tips, in line with the proposed minimum wage.

The effective date is January 1, 2008.

FISCAL IMPLICATIONS

Fiscal impact of SFC amendment: According to NM DOL data, the starting wage for emergency medical technicians and paramedics begins at roughly \$9.00 per hour. There may be some dispatchers or maintenance employees who are below the proposed \$7.50 minimum.

SOC Code	Occupational Title	Industry Title	Entry Level	Mean (average)	Median	Experienced
292041	Emergency Medical Technicians and Paramedics	Total, All Industries	\$8.98	\$14.02	\$13.23	\$16.55

Source: NMDOL

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 \$14 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

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.

The Numbers. 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		Share affected	Percent of total		Average raise
	Affected workers	All workers		Affected workers	All workers	
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. A report by the Employment Policies Institute, a non profit in Washington DC that receives funding from the food and restaurant industry reports that there is a negative employment impact particularly among minorities.

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

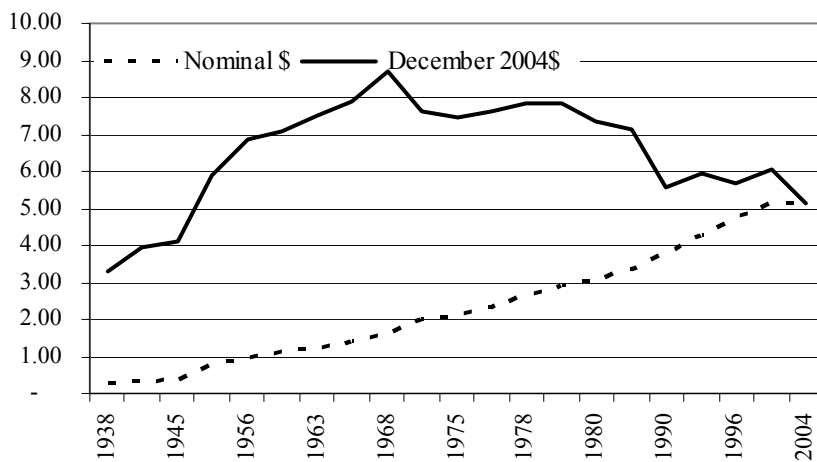
Source: LFC analysis of NMDOL Data

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.

Private household employees. According to NMDOL, there were approximately 1,450 workers employed by private households with an average weekly wage of \$352. Assuming a 40 hour work week, that means that these workers earn \$8.80 per hour. These workers are excluded from the minimum wage law under current law.

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 both the US House of Representatives and the U.S. Senate have passed bills 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.

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. There are nine states, including New Mexico, that have minimum wage laws at the same rate as the federal minimum wage but without language to automatically update when the federal wage changes. Seventeen of the states automatically update to the federal minimum. Six states have no minimum wage set. Several of the states have lower rates for small businesses.

Table 3: Minimum Wage Laws in the States

Alabama	No Minimum	Indiana	5.15	Nevada	Federal	Tennessee	No Minimum
Alaska	7.15	Iowa	Federal	New Hampshire	Federal	Texas	Federal
Arizona	No Minimum	Kansas	2.65	New Jersey	Federal	Utah	Federal
Arkansas	Federal	Kentucky	Federal	New Mexico	5.15	Vermont	7*
California	6.75	Louisiana	No Minimum	New York	6.75	Virginia	Federal
Colorado	5.15	Maine	6.35	North Carolina	Federal	Washington	7.35
Connecticut	7.1	Maryland	Federal	North Dakota	5.15	West Virginia	5.15*
Delaware	6.15	Massachusetts	6.75	Ohio	4.25*	Wisconsin	5.7
District of Columbia	6.6	Michigan	Federal	Oklahoma	5.15*	Wyoming	5.15
Florida	6.15	Minnesota	6.15*	Oregon	7.25		
Georgia	Federal*	Mississippi	No Minimum	Pennsylvania	Federal		
Hawaii	6.25	Missouri	Federal	Rhode Island	6.75		
Idaho	5.15	Montana	Federal	South Carolina	No Minimum		
Illinois	6.5	Nebraska	Federal	South Dakota	5.15		

* Georgia, Indiana, Minnesota, Ohio, Oklahoma, Vermont, West Virginia have a lower rate for small business.

"Federal" indicates that the state minimum automatically adopts the federal minimum

Bolded states will have minimum wage laws lower than federal if Congress enacts a new 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.

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.

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