FISCAL IMPACT REPORT

		LAST UPDATED	3/8/2025
SPONSOR	Roybal Caballero	**ORIGINAL DATE**	2/11/2025
SHORT TITLE	Increase Minimum Wage	**BILL NUMBER**	House Bill 246/aHLVMC
		ANALYST	Garcia

REVENUE*
(dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
		Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Recurring	Personal Income Tax
		Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Recurring	Corporate Income Tax
		Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Indeterminate but minimal gain	Recurring	Gross Receipts Tax

Parentheses ( ) indicate revenue decreases.
*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT*
(dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Medicaid Program Enrollment	No fiscal impact	($86,813.4)	($178,219.9)	($256,033.3)	Recurring	General Fund
Medicaid Program Enrollment	No fiscal impact	($274,909.2)	($564,362.9)	($839,272.1)	Recurring	Federal Funds
Medicaid Program Direct Care Cost	No fiscal impact	$33,004.9	$67,726.0	$100,730.9	Recurring	General Fund
Medicaid Program Direct Care Cost	No fiscal impact	$83,579.0	$171,504.1	$255,083.0	Recurring	Federal Funds
ALTSD Senior Employment Program	No fiscal impact	$122.0	$244.0	$366.0	Recurring	General Fund
State Employees	No fiscal impact	$674.5	$1,663.0	$2,337.0	Recurring	General Fund
ECECD	No fiscal impact	At least $37,500.0	At least $76,632.0	At least $114,132.0	Recurring	General Fund
Public Schools	No fiscal impact	$22,089.0	$45,061.0	$67,150.0	Recurring	General Fund
Courts	No fiscal impact	$550.0	$1,122.0	$1,672.0	Recurring	General Fund
Total	No fiscal impact	($184,203.2)	($378,630.7)	($553,834.5)	Recurring	Multiple

Parentheses ( ) indicate expenditure decreases.
*Amounts reflect most recent analysis of this legislation.

Relates to House Bills 305, 119, 264, and 59 and Senate Bill 317
Conflicts with House Bill 22

Sources of Information

LFC Files

<u>Agency Analysis Received From</u>
Workforce Solutions Department (WSD)
Economic Development Department (EDD)
State Personnel Office (SPO)
Aging and Long-Term Services Department (ALTSD)
Health Care Authority (HCA)
Early Childhood Care and Education Department (ECECD)
Administration Office of the Courts (AOC)
Public Education Department (PED)

<u>Agency Analysis was Solicited but Not Received From</u>
Department of Health (DOH)

Because of the short timeframe between the introduction of this bill and its first hearing, LFC has yet to receive all requested analysis. This analysis could be updated if that analysis is received.

SUMMARY

Synopsis of HLVMC Amendment to House Bill 246

The House Labor, Veterans, and Military Affairs Committee amendment strikes agricultural workers from a list of people who are excluded in the definition of "employees."

Synopsis of House Bill 246

House Bill 246 (HB246) would make changes to the state's Minimum Wage Act (citation), including:

- Increasing the state's minimum wage for employees to $17 per hour, beginning January 1, 2026;
- Eliminating the tipped minimum wage and tip credits, requiring employers instead to pay tipped employees at least the new minimum wage, with no reliance on tipped credits;
- Annually adjusting the state's minimum wage, using the consumer price index;
- Repealing certain exemptions from the state's definition of "employees," including those related to federal and state government employees; employees of educational, charitable, and religious organizations; registered apprentices; seasonal employees; and certain agricultural workers;
- Eliminating the authority of the Workforce Solutions Department to issue special exemption certificates permitting employers to pay workers with disabilities less than the minimum wage, subject to certain program requirements.

This bill does not contain an effective date and, as a result, would go into effect 90 days after the Legislature adjourns if enacted, or June 20, 2025.

FISCAL IMPLICATIONS

The amendment does not affect the fiscal implications discussed below.

The bill would establish the minimum state minimum wage at $17 per hour and adjust the wage annually according to the consumer price index. Using the projected CPI, projected wages through 2030 are as follows:

Projected Annual Minimum Wage Rate Using CPI-U

Year	Projected Wage Rate
2026	$ 17.00
2027	$ 17.37
2028	$ 17.69
2029	$ 18.08
2030	$ 18.49

State Employees

The State Personnel Office (SPO) reports the state of New Mexico currently has 130 state employees who would need to have their salaries raised to $17/hour. However, LFC analysis of SPO data found the number of state employees requiring a pay increase may be closer to 400. As the rate increases over time, additional employees would require a pay increase. LFC estimates the cost to raise state employee wages to the minimums projected to be $674 thousand in FY26 and $1.7 million in FY27.

SPO also reports that raising the minimum wage for state employees to $17/hour would likely create salary compaction for employees whose current salaries are at or near $17/hour but who have more job responsibilities or are in a higher classification than employees whose salaries would be increased. To address this, SPO reports agencies would likely seek to internally align personnel classifications, potentially resulting in additional costs to avoid pay inequities.

Aging and Long-Term Services

The Aging and Long-Term Services Department (ALTSD) operates the New Mexico Senior Employment Program, which provides on-the-job and other vocational training to low-income New Mexicans aged 55 and older. On-the-job assignments pay minimum wage, and the program requires 75 percent of expenditures be for participant wages and fringe benefits. In FY25, ALTSD received $294 thousand from the general fund to operate the program. ALTSD is required to spend at least 75 percent of the program budget on participant wages and fringe benefits, and thus, ALTSD suggests the program budget would need to proportionally increase to fund a wage increase, should the bill pass. ALTSD estimated a cost of $122 thousand in the first year of the increase to the minimum wage.

Health Care Authority

The Health Care Authority (HCA) reports no fiscal impact to the agency because all employees will be making $17 per hour prior to the date outlined in the bill (January 1, 2026). However, the department could likely experience significant fiscal impacts to programs operated by the department, including the Temporary Assistance for Needy Families and Medicaid programs.

Changes to the state's minimum wage could potentially impact program eligibility and enrollment in the Medicaid program if they result in financial ineligibility for coverage. These "cliff effects" could occur if the increase in the minimum wage in a given year is larger than the rate of inflation, as applied by the U.S. Health and Human Services (HHS) when setting poverty thresholds. HHS updates poverty thresholds annually, based on the consumer price index (CPI). Should the minimum wage increases proposed in the bill result in individuals currently enrolled in Medicaid and other income support programs, such as the Supplemental Nutrition Assistance Program, Temporary Assistance for Needy Families (TANF), or Low-Income Home Energy Assistance Program (LIHEAP), exceeding the income limit for program eligibility, the HCA would experience cost savings in these programs, with savings to the general fund as well.

HCA projects 81.743 thousand working-age clients in the Medicaid program would become ineligible for the program, resulting in a savings of $86.8 million to the General Fund in FY26 and $178.2 million to the General Fund in FY27. In addition, federal revenue to the program would decrease by $274.9 million in FY26 and $564.4 million in FY27. However, the program would likely experience cost increases associated with passing along rate increases to health care providers who deliver direct care services needing to increase wages (referenced as direct care program costs in the estimated additional operating budget impact table). HCA predicts direct care cost increases of $33 million in FY26 and $67 million in FY27, impacting the general fund. HCA also projects federal fund impacts of $83.6 million in FY26 and $171.5 million in FY27. Overall, HCA projects a net cost savings to the General Fund of $161.4 million and net cost savings to federal funds of $584.2 million.

Workforce Solutions Department

The Workforce Solutions Department (WSD) estimates potential minimal operating cost increases to the Labor Relations Division related to printing materials with updated pay rates.

WSD reports the Labor Relations Division Wage and Hour Bureau, which enforces wage requirements, tends to see increased claims with new Minimum Wage Act requirements. WSD notes the changes in the bill would also likely require significant outreach and education for employers. The department notes it is unclear in the bill if WSD would be expected to perform this function, and the agency would likely require additional funding to perform this function.

Public Schools

The Public Education Department (PED) reports the School Personnel Act defines minimum salary requirements for school personnel. Since FY23, certified school personnel have been paid a minimum rate of $15 per hour as a result of language included in the General Appropriations Act. The agency notes depending on individual school district staff requirements, the bill may impact school personnel.

A variety of positions with public schools may have wages below the minimum $17/hour wage that would take effect on January 1. These include bus drivers, security guards, custodians, food service workers, instructional assistants, and substitute teachers. LFC estimates costs to bring the minimum wage of these works to $17/hour to be at least $44.2 million in FY26. The Legislature does not directly make appropriations to public schools but instead makes appropriations through the state equalization guarantee (SEG). Should this bill pass, the Legislature would need to appropriate additional funding to the SEG, and then PED would need to adjust the unit value accordingly to pass funding on to school districts to meet increased minimum wage requirements. Otherwise, school districts would need to absorb the increased personnel costs within their operating budgets.

PED reports:

> School staff who would be impacted by this bill are important to student learning and classroom safety. HB246 may help schools attract and retain staff and thereby improve educational outcomes for students.

Early Childhood Education

The Early Childhood Care and Education Department (ECECD) contracts with service providers to deliver home visiting and early intervention services that factor into wages for early childhood educators. ECECD notes if HB246 were to pass and the minimum wage raised, ECECD contractors would face costs increases:

> Though the exact fiscal impacts are difficult to estimate, an increase in the minimum wage will have significant fiscal impacts across all of ECECD's programs. … ECECD's FY26 budget request include $74 million to increase baseline pay for employees working in child care programs from $15 per hour to $18 per hour. If HB246 were to pass, similar increased labor costs could be assumed for PreK, early intervention, and home visiting providers.

In addition to the potential cost increases to contractual services the ECECD noted, other state agencies could also experience contractual services cost increases and private employers work to comply with new minimum wage standards.

Courts

By law, the Administrative Office of the Courts (AOC) is required to pay jurors the minimum wage. AOC notes an increase to the minimum wage would have an impact on the cost of jurors, which will no longer be supported by post-adjudication fees in FY26. In FY25, AOC reported $3.7 million in anticipated juror payments at the state's current minimum wage. AOC projects the total will increase to $4.8 million if this bill is enacted and the minimum wage increases to $17/hour. The courts would also experience increased costs in subsequent years as the minimum wage is adjusted and note the agency would need additional general fund revenue to support juror costs.

Overall, the state could experience net savings primarily because of the savings in the Medicaid program, with most savings to federal funds. In addition to the examples noted among, the state would also likely experience increased appropriation requests for contractual services costs increases across state agencies. The state could experience significant costs to the general fund totaling at least $122 million in FY27, excluding Medicaid.

SIGNIFICANT ISSUES

WSD estimates 32 thousand workers in New Mexico currently earn the state's minimum wage of $12 an hour. The median hourly wage in New Mexico is $20.97. Within the time allotted for bill analysis, WSD was unable to estimate the number of individuals receiving the tipped minimum wage, the local minimum wage, or a wage subject to exemptions that this bill would remove. However, it is likely the cost to employers across the state to meet the new minimum wage requirement could be significant.

The Economic Development Department (EDD) shared concerns with the timeline for implementation of the bill, which would move the state's minimum wage from $12 per hour to $17 per hour, roughly 36 percent, within nine months. EDD notes prior increases to the state's minimum wage were phased in at a slower rate with no increase in the last decade requiring more than $1.50 an hour or 20 percent within one year. In addition, EDD notes the long-term impacts of tying state minimum wages to the consumer price index are unknown, though Colorado and Arizona have both implemented this requirement.

HCA notes several "cliff effects" that would result in disenrollment from programs administered by HCA as a potential result of adopting a state minimum wage of $17/hour. These include:

- The Wage Subsidy and Career Link Programs administered by the Income Support Division, which provides subsidized employment for TANF) recipients. Programs that provide subsidized employment would need to reduce the number of hours that a participant receives to maintain TANF eligibility, resulting in a drop of 4 people in the Wage Subsidy Program and a reduction of 13 people in the Career Link Program.

SFY2025	Wage Subsidy	Career Link
Budget	$ 2,000,000	$ 2,748,300
Enrollment as of 31-Dec-24	32	11
Current Minimum Wage	$ 15.90	$ 15.90
Maximum Enrollment Capacity @ $15.90	60	206
Proposed Minimum Wage (Increase of $1.10)	$ 17.00	$ 17.00
Maximum Enrollment Capacity @ $17.00	57	192
The drop of Enrollment Capacity (Increase of $1.10 to Min Wage)	4	13

- SNAP, the Cash Assistance Program, and LIHEAP would also likely experience decreases in enrollment as a result of increasing the minimum wage to $17/ hour. HCA's projected enrollment declines are included in the tables below:

Program	Estimated Number of Recipients Over the Income Limit in 2024 @ $16/ Hour	Estimated Number of Recipients Over the Income Limit in 2024 @ $17/ Hour
Medicaid	81,743	16,565
SNAP	42,899	11,402
Cash Assistance Programs	131	31
LIHEAP	30,438	7,734

PED reports

HB246 would classify registered apprentice or learners as employees, thereby making certain students enrolled in career-technical education (CTE) eligible for minimum wage increases. As a result, HB246 may make it more costly for schools and community partners to provide apprenticeships.

ADMINISTRATIVE IMPLICATIONS

The bill would require WSD to calculate and publish the annual inflation-adjusted minimum wage. Beginning in 2027, WSD would be required to determine the new minimum wage using the CPI and notify employers by November 1 of the updated wage rate for the following year.

SPO reports using CPI as a component of pay for state employees beginning on January 1, 2026 may be "technically and administratively challenging, based on the current fiscal year calendar."

HCA notes resetting wage rates each year based on minimum wage increases would require the Developmental Disabilities Supports Division to undergo multiple administrative activities annually, including but not limited to adjusting budgets, obtaining Centers for Medicare and Medicaid approval for wage changes, posting new fee schedules, and adjusting annual budgets for waiver programs.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

HB246 relates to House Bill 305 and House Bill 119, both of which would require the state to increase contracts to private businesses if statute requires a minimum wage increase or if businesses are required to provide a specific benefit to employees.

HB246 relates to House Bill 59, which proposes the Earned Wage Access Services Act and House Bill 368, which proposes a tax credit for high-wage jobs.

HB246 conflicts with House Bill 22, which prohibits employers of tipped employees from deducting credit card processing fees from the amount of tips paid to the tipped employee.

HB246 conflicts with HB201, which proposes raising the minimum wage for school employees to either $15.00 per hour or $30 thousand per year.

HB246 conflicts with HB264, which would raise the minimum wage for state workers to $15 per hour and provide regular increases

HB246 conflicts with Senate Bill 317, which would create a Youth Apprenticeship, Internship, and Opportunity program and provide the payment of wages between $15 and $17 per hour for apprentices and interns who are between the ages of 16 and 18.

OTHER SUBSTANTIVE ISSUES

WSD notes:

Any increase in the minimum wage would have a ripple effect on other statutes that relate to the minimum wage. For example, an increase in the minimum wage will increase the taxable wage base, thus increasing the amount employers pay in unemployment insurance tax rates. Because wages are higher, unemployment benefits will also increase. If Paid Family Medical Leave were to pass in the introduced version of House Bill 11, the minimum benefit would also increase. Other statutes may have a similar relationship.

HCA reports:

The United States Department of Labor is currently undergoing a notice of proposed rulemaking to determine if 14(c) certificates, which are authorizations issued by the U.S. Secretary of Labor to allow employers to pay subminimal wages to workers with disabilities, will no longer be issued to employers. Should this rule be finalized, 14(c) certifications that grant payment of substandard wages to individuals with intellectual and developmental disabilities will be discontinued.

ALTERNATIVES

EDD recommends if the state wishes to move to a CPI-based wage adjustment model, the state could start with a lower first year minimum wage increase.

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