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FISCAL IMPACT REPORT

ORIGINAL DATE 02/03/12

SPONSOR M. Garcia LAST UPDATED _____ HJR 28

SHORT TITLE Minimum Wage Rate Increase SB _____

ANALYST Aledo-Sandoval

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY12	FY13	FY14	2 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		\$322.5	\$218.5*	\$541*	Recurring	General Fund

(Parenthesis () Indicate Expenditure Decreases)

***See fiscal implications**

SOURCES OF INFORMATION

LFC Files

Responses Received From

Economic Development Department (EDD)
 Workforce Solutions Department (WSD)
 State Personnel Office (SPO)
 Department of Finance and Administration (DFA)

No Responses From

Tax and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

House Joint Resolution 28 proposes a state constitutional amendment adding a requirement to increase the state minimum wage rates on July 1 of each year by the increase in the cost of living. The cost of living increase, or rate of inflation, would be determined by the percent increase of the consumer price index for all urban consumers published by the U.S. Department of Labor as of February of each year over the level as of February of the previous year. The proposed amendment, if passed, would be submitted to the electorate for their approval at the next general election or at any special election prior to that date that may be called for that purpose.

FISCAL IMPLICATIONS

According to the Department of Finance and Administration, in January, Global Insight (GI), a national, monthly forecasting service, estimated inflation to be 1.3 percent in CY2013 and 2.0 percent in CY2014-16. Using this forecast, the current minimum wage rate of \$7.50 per hour is estimated to increase to \$7.60 in CY2013, \$7.75 in CY2014, \$7.90 in CY2015, and \$8.05 in CY2016 with passage of the constitutional amendment.

The State Personnel Office used the average consumer price index for urban consumers over the past 10 years of 2.8% to provide an estimate of the annual cost to state government. This estimate yielded an increase in the minimum wage rate from \$7.50 per hour to \$7.71 per hour. The SPO states that there are currently 70 classified employees who fall below \$7.71 per hour and the annualized salary cost (excluding benefits) to bring these employees to the new minimum is \$31,054. A total of 428 executive, legislative and judicial employees fall below \$7.71 per hour and the annualized salary cost (excluding benefits) to bring these employees to minimum is \$187,495. In this example, the total cost to state government if the minimum wage was raised to \$7.71 is estimated to have a fiscal impact of \$218,549.

As noted in the DFA's estimation of the minimum wage rates for CY2013-CY2016, the annual increase in the minimum wage has a compounding effect. The SPO example is simplistic and does not demonstrate the affect of a yearly increase in the minimum wage rate. Annually more state employees will fall below the minimum wage rate and the fiscal impact to the state's operating cost may grow at an increasing rate.

The Economic Development Department expressed concerns for the additional cost an annual increase in the minimum wage rate would impose on New Mexico businesses, particularly small businesses. The EDD asserts that the additional costs to businesses would result in lower revenues and profits, leading to lower tax revenue collected by the state.

According to the Secretary of State's office, with the passage of any House Joint Resolution, in accordance with Section 1-16-4 NMSA 1978, upon receipt of the certified proposed constitutional amendment or other question from the Secretary of State, the county clerk shall include it in the proclamation to be issued and shall publish the full text of each proposed Constitutional amendment or other question in accordance with the constitution of New Mexico. Although the county clerk includes the proposed amendments in his/her proclamation, it is the responsibility of the State to pay for the costs associated with the publication per Section 1-16-11 NMSA 1978. The approximate cost per constitutional amendment is \$104,000.

SIGNIFICANT ISSUES

The Economic Policy Institute asserts the minimum wage is not worth nearly as much as it was decades ago. Although each legislated increase in the minimum wage has served to increase its value, these increases have generally been short-lived, with inflation naturally eroding its purchasing power over time.

The Workforce Solutions Department does not readily have the number of people earning minimum wage and the impact. Extensive data analysis would be required to obtain this data.

The Department of Finance and Administration's analysis of HJR28 highlights possible conflicting outcomes of an increase of the state minimum wage rate. The DFA states that some studies have argued that increases in minimum wage lead to lower employment levels. If those most likely to be subjected to the minimum wage are also those most likely to experience extreme poverty, any decrease in employment might be counterproductive to the legislation. Other studies claim that minimum wage increases lead to greater purchasing power and consumer demand, which leads to greater economic growth.

The DFA goes on to state that data indicate that unskilled workers such as teenagers and retail employees are more likely subject to minimum wages. Studies also suggest that there is a larger negative employment effect in small counties and states with low average wages, where more workers are affected by the minimum wage. Employers may be reluctant to hire workers at the minimum wage if they experience annual increases in the costs of labor. The DFA further states that this proposal could be counterproductive if employers prefer to reduce benefits or replace workers with automation rather than face increasing wage costs. This proposal might also deter business expansion or relocation to New Mexico.

According to the Economic Policy Institute, effective January 1, 2012, eight states have increased their hourly minimum wage. These states have legislation that provides for annual, inflation-linked increases in their minimum wage rates. The respective states and their new wage rates are as follows:

1. Washington (\$9.04/hr.);
2. Oregon (\$8.80/hr.);
3. Vermont (\$8.46/hr.);
4. Ohio (\$7.70/hr.);
5. Florida (\$7.67/hr.);
6. Arizona (\$7.65/hr.);
7. Montana (\$7.65/hr.);
8. Colorado (\$7.64/hr.).

Interestingly, Alabama, Louisiana, Mississippi, South Carolina, and Tennessee do not set state minimum wage standards. Employees in these states receive \$7.25 per hour, the minimum hourly wage set by the federal Fair Labor Standards Act (FLSA). Nevada will reset its minimum wage (currently \$7.25/hr.) based on inflation in July 2012.

The following analysis was provided by the Economic Development Department:

Most minimum-wage jobs are offered by small businesses, the nation's and the state's top job creators. Small businesses operate on a smaller margin than their larger counterparts, and are therefore in the poorest position to absorb increases in their operating costs. For small businesses, the extra cost associated with a minimum wage increase is often impossible to recoup by raising prices. Customers are likely to shift their business to other competitors who are more able to absorb this increased wage burden. Mandatory wage increases therefore force small business employers to eliminate entry-level jobs, reduce hours and benefits for current employees, and possibly dismiss current employees.

According to a study by the Employment Policies Institute (Job Loss in a

Booming Economy, 2nd Edition), the 1996 wage increase of only \$0.50 an hour in the federal minimum wage, 645,000 entry-level jobs were destroyed despite the robust economy at that time.

PERFORMANCE IMPLICATIONS

The impact to the Workforce Solutions Department and the Labor Relations Division will be relatively minimal.

ADMINISTRATIVE IMPLICATIONS

The SPO indicates that 50-4-22 NMSA 1978 would have to be amended annually and that the Legislature would be required to pass legislation each year to ensure the state minimum wage becomes law. Additionally, the SPO states that the classified service salary structure would need to be reviewed and adjusted upward as appropriate if the new minimum wage was higher than the minimum of the lowest pay range. This could only affect the lowest pay range or all pay ranges based on policy.

TECHNICAL ISSUES

The SPO states that it is unclear if the minimum wage rate would be adjusted downward if the consumer price index for urban consumers was negative for a 12-month period ending each February.

The DFA affirms that during periods of recession, it is not uncommon for the consumer price index for urban consumers to experience negative growth. The DFA recommends an amendment whereby the rate cannot be lower than in the previous calendar year.

OTHER SUBSTANTIVE ISSUES

The State Personnel Office notes that if February data is used as the basis for the increased amount and published by May 1 of each year to become effective July 1 each year, there will not be sufficient time for the Legislature to provide increased funding to public agencies to pay for any mandated increases. February numbers are not published until March of each year – either after a 30-day session ends or close to the end of a 60 day session. Budget requests are due the “prior” September 1 of each year and the required amount is unknown at that time.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

The state minimum wage rate will continue to lag behind the cost of living.