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FISCAL IMPACT REPORT

SPONSOR Sanchez, C **ORIGINAL DATE** 02/06/14
LAST UPDATED _____ **HB** _____

SHORT TITLE Raise Minimum Wage **SB** 285

ANALYST Daly

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY14	FY15	FY16	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total		NFI	\$227.8	\$227.8	Recurring	Various

(Parenthesis () Indicate Expenditure Decreases)

Conflicts with HB 213, HB 275, HJR 9 and SJR 13.

SOURCES OF INFORMATION

LFC Files

Responses Received From

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

SUMMARY

Synopsis of Bill

Senate Bill 285 raises the minimum wage from \$7.50 to \$8 an hour, except for: (1) employers employing ten or few employees, who must pay employees no less than \$7.50 an hour; and (2) a trainee employer must pay the trainee employee no less than \$7.50 an hour during the training period for no longer than six months from date of hire. The bill also adds language clarifying that the section setting these minimum wages shall not be construed to authorize or require an employer to lower an employee's hourly wage.

This bill contains a delayed effective date of July 1, 2015.

FISCAL IMPLICATIONS

SPO reports that the total cost with state paid mandatory benefit (at 26/4%) to bring 173 state employees in all three branches of government to \$8.00 an hour is \$226,816. Since there is no stipulation in the bill regarding cost of living increases in future years, there is no additional recurring cost.

In addition, DWS estimates a \$1 thousand fiscal impact to update its wage claim forms and its website to reflect New Mexico's current minimum wage.

SIGNIFICANT ISSUES

The National Conference of State Legislatures reports the following minimum hourly wages for states near New Mexico:

- Arizona - \$7.90 (rate is increased annually based on a cost of living formula)
- California - \$8.00 (\$9.00 eff. 7/1/2014, \$10.00 eff. 1/1/2016)
- Colorado - \$8.00 (rate is increased annually based on a cost of living formula)
- Oklahoma - \$7.25
- Nevada - \$8.25 w/o health benefits, \$7.25 with health benefits (adjustments subject to increases in the federal minimum wage, tied to CPI)
- Texas - \$7.25
- Utah - \$7.25

DWS's Wage and Hour Bureau enforces the Minimum Wage Act. The Bureau investigates and gathers data on wages hour issues to enforce compliance with the Act. DWS also advises that the Fair Labor Standards Act sets a federal minimum hourly rate (\$7.25 per hour since 2009) for non-exempt employees, but states may enforce higher pay rates. If an employee is subject to both the state and federal minimum wage laws, the employee is entitled to the higher of the two minimum wages.

There are ten states (AZ, CO, FL, MO, MT, NV, OH, OR, VT, and WA) that have increased minimum wage rates that are tied to the consumer price index. As a result of this linkage, the minimum wages in these states are normally increased each year, generally around January 1st of each year. Rhode Island's increase is provided by special legislation enacted in 2012 unrelated to the consumer price index. Meanwhile, 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.

During the 2014 State of the Union Address, President Barack Obama called for a near 40 percent increase to the federal minimum wage, endorsing a bill that would raise the federal minimum wage from \$7.25 per hour to \$10.10. *The Economist* reported in 2013 America's minimum wage has long been low by international standards, equaling just 38 percent of the median wage in 2011, close to the lowest in the OECD.

Economists are divided on the economic effects of the minimum wage, and particularly over

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whether wage floors help or hurt job creation. Opponents of minimum wages argue the fixed price floor reduces demand for workers affected by the wage. Proponents of minimum wages argue higher minimums support job and economic growth by shifting income towards people who consume more of what they earn.

DFA comments:

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. Others claim that minimum wage increases lead to greater purchasing power and consumer demand, which leads to greater economic growth.

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.

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.

The employment threshold to qualify for the lower minimum wage rate could deter businesses from creating jobs, although it might reduce the impact of the legislation on small businesses. In either case, it creates a labor price inequality with similar businesses.

DFA also notes that similar legislation (House Bill 416) was vetoed during the 2013 legislative session.

EDD provides this analysis of the impact of SB 285:

Among New Mexico's 33 counties the average wage per job ranges from \$27,362 (De Baca County) to \$74,588 (Los Alamos) (Source: U. S. Department of Commerce, Bureau of Economic Analysis). This is an extremely diverse state with large rural areas. While well-intended, statewide wage mandates do not make sense for New Mexico. This will adversely affect small, rural communities where the cost of living is lower and businesses generally do not enjoy the revenue levels of urban areas.

A single mandated minimum wage also does not take into consideration the differences in wage levels paid by each industry and skill level. Tourism is an extremely important industry to New Mexico; hotels and restaurants will be impacted disproportionately by this bill.

Cities that have enacted minimum wages have experienced business closures and relocations. For small business, the extra cost associated with a minimum wage increase

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is often impossible to recoup by raising prices. When the City of Santa Fe enacted the mandatory “living wage” the business park just outside the city limits began marketing itself as “outside the living wage mandate.”

SPO warned in its analysis of similar 2013 legislation that as time goes on without adjusting salaries for all other employees, annual increases to the minimum wage would cause significant pay compression. The SPO contended that noticeable differences in pay rates should exist between jobs that are noticeably different based on job related criteria such as education, experience, and/or tenure.

PERFORMANCE IMPLICATIONS

EDD warns that regulatory policies such as mandatory minimum wages generally have a negative impact on business climate rankings and are considered a “red flag” by companies and site selectors. It believes the bill will generate national press and likely have a negative impact on EDD’s performance in recruiting and retaining businesses. A positive business climate is a requirement for recruitment of industries. Existing businesses considering expansion may choose to expand in another state which does not mandate minimum wages.

ADMINISTRATIVE IMPLICATIONS

SPO reports 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. Currently, the minimum rate of pay band 25 is \$7.50 per hour, and the minimum rate of pay band 30 is \$7.59 per hour. If enacted, these pay band structural issues would be easily addressed by SPO in order to comply with state law.

CONFLICT

DWS and SPO provide this comparison of the various proposals before the 2014 legislature:

- SJR 13 proposes a constitutional amendment that would raise the minimum wage from \$7.50 to \$7.71 and require annual upward adjustments of .05%, linked to a consumer price index.
- HJR 9, a duplicate of SJR 13, would also raise the minimum wage and require annual upward adjustments linked to a consumer price index.
- HB 213 proposes to raise the minimum wage from \$7.50 per hour to \$10.10 per hour, with annual upward adjustments of .05% linked to a consumer price index.
- HB 275 provides for a minimum wage of \$12 per hour for state employees, with no provision for annual upward adjustments.

TECHNICAL ISSUES

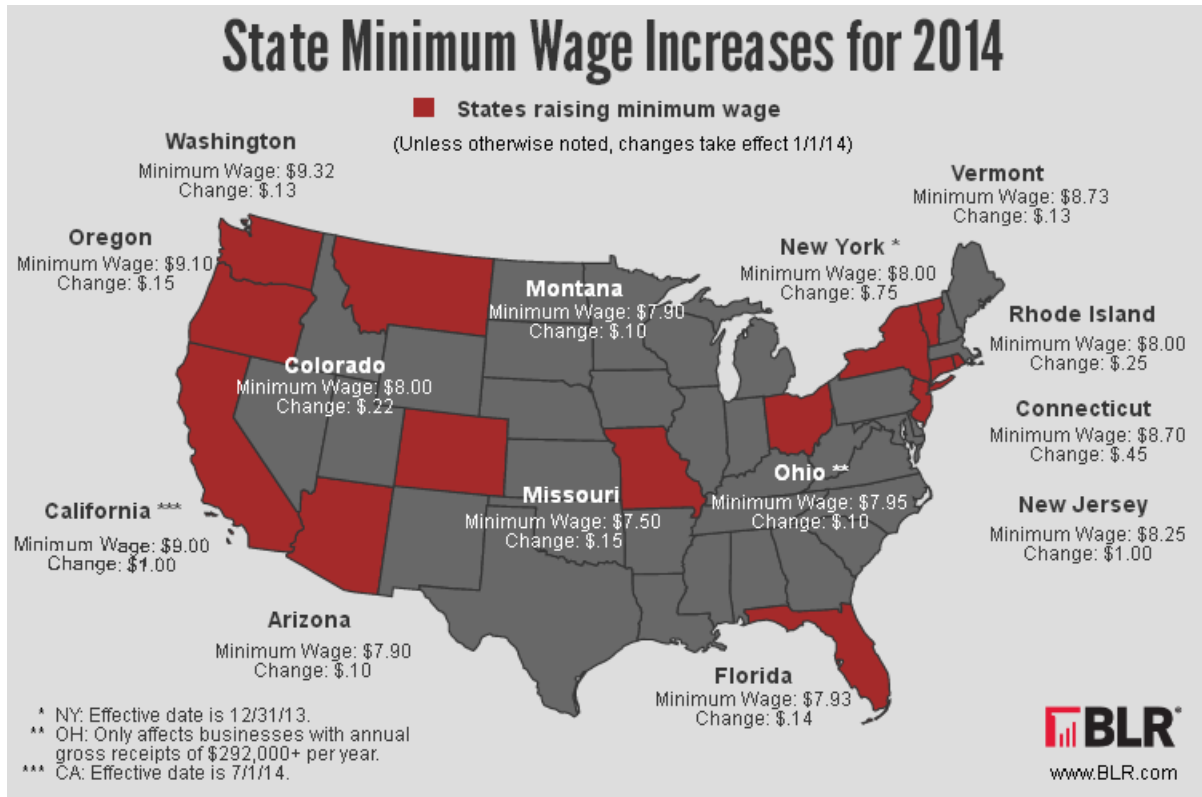
1. On page 2, line 1, the word “employee” should be “employer.”
2. SPO suggests the term “trainee employee” be defined for clarity and to prevent abuses of the provisions of Section 1(A)(2).

OTHER SUBSTANTIVE ISSUES

DFA reports that the minimum wage was raised to \$7.50 per hour from \$6.50 per hour in 2009. In November 2012, Albuquerque voters elected to raise the minimum wage in the City of Albuquerque to \$8.50 per hour. Approximately 46% of employed New Mexicans work in Albuquerque, so many already benefit from a higher minimum wage. Another 7.5% work in Santa Fe where the minimum wage is scheduled to increase to \$10.65 per hour beginning March 1.

DWS notes that if SB 285 is enacted, New Mexico would be in the upper range of minimum wage rates as compared with our neighboring states, but our minimum wage would still be lower than states such as Washington, at \$9.32 per hour, and Vermont, at \$8.75 per hour. (Source: USDOL, <http://www.dol.gov/whd/minwage/america.htm>).

SPO provides this visual reference from HR.BLR of states that increased their minimum wage rates in 2014. Both Arizona and Colorado enacted minimum wage increase laws that became effective in 2014. Currently a total of five states (Colorado, Rhode Island, Massachusetts, New York and California) have state minimum wage rates of \$8.00 per hour. However, California’s minimum wage rate will increase to \$9.00 per hour on 7/1/2014.



Additional information on various states minimum wage laws can be found at:

<http://hr.blr.com/HR-news/Compensation/Minimum-Wage/State-minimum-wage-increases-for-2014#>

MD/ds