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## FISCAL IMPACT REPORT

**ORIGINAL DATE**  
**LAST UPDATED** 02/10/15 **HB** \_\_\_\_\_

**SPONSOR** Soules

**SHORT TITLE** Increase Minimum Wage and Annual Increases **SB** 432

**ANALYST** Sanogo / Klundt

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY15	FY16	FY17	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		\$439.0	\$879.0	\$1,318.0	Recurring	Various

(Parenthesis ( ) Indicate Expenditure Decreases)

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY15	FY16	FY17		
	Positive, but unquantifiable	Positive, but unquantifiable	Recurring	Personal Income Taxes
	Unquantifiable	Unquantifiable	Recurring	Corporate Income Taxes

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files  
 US Department of Labor, Bureau of Labor Statistics (BLS)  
 US Department of Commerce, Bureau of Economic Analysis (BEA)  
 National Conference of State Legislatures (NCSL)  
 Office of Management and Budget (OMB)  
 Moody's Analytics Inc.  
 Forbes Inc.

### Responses Received From

Economic Development Department (EDD)  
 Workforce Solutions Department (WSD)  
 Administrative Office of the Courts (AOC)  
 Taxation and Revenue Department (TRD)  
 State Personnel Office (SPO)  
 Department of Finance and Administration (DFA)  
 Human Services Department (HSD)  
 Secretary of State (SOS)

**SUMMARY**

SB 432 proposes to phase in a minimum wage increase from \$7.50 to \$10.10 over two calendar years, starting on January 1, 2016. Tipped employees shall be paid a minimum hourly wage that is equal to 50 percent of the minimum wage rate of non-tipped employees. For every subsequent year, the minimum wage would be indexed to the rate of inflation, as measured by the consumer price index (CPI-U).

**FISCAL IMPLICATIONS**

For every \$0.25 increase in the minimum wage, the State Personnel Office (SPO) estimates the cost of the increase (including benefit) for all classified state employees to be \$73 thousand; for the jury and witness fund, the Administrative Office of the Courts (AOC) reports it will require \$96 thousand. The amounts in the table above reflect the apportionment of the total calendar year costs to the fiscal years affected.

Unquantifiable, positive impacts to personal income taxes (PIT) may result from raising the minimum wage. Any positive increases may be offset by lower employment levels due to fewer minimum wage jobs (see table 1, summarizing the impact of minimum wage increases in NM). In FY14, PIT contributed \$1.25 billion, or 20.7 percent, to the general fund.

Unquantifiable impacts to corporate income taxes (CIT) may also result from raising the minimum wage. In FY14, CIT contributed \$197 million, or 3.3 percent, to the general fund.

**SIGNIFICANT ISSUES**

Economists are divided on the economic effects of the minimum wage. In New Mexico’s case, the previous minimum wage increases have not produced significant effects on employment or corporate earnings. In states that have indexed increases in their minimum wages to increases in the cost-of-living, consumer prices have not deviated significantly from the national average (see “Attachment C”).

**Table 1: Historical Impact of Minimum Wage Increases in NM  
( 2004, 2008-2009 )**

New Mexico Statistic	Impact	More Information	Source
<b>Total number of jobs</b>	No significant impact	Figure 1, Attachment A	WSD, BLS
<b>Entry-level jobs</b>	No significant impact	Figure 2, Attachment A	WSD, BLS
<b>Small business jobs</b>	No significant impact	Figure 3, Attachment A	WSD, BLS
<b>Rural jobs</b>	Minimal	Figure 4, Attachment A	WSD, BLS
<b>Business rankings</b>	No significant impact	Figure 1, Attachment B	Forbes, BEA, BLS
<b>Corporate earnings</b>	No significant impact	Figure 3, Attachment B	BEA
<b>Gross domestic product</b>	No significant impact	Figure 4, Attachment B	BEA

**PERFORMANCE IMPLICATIONS**

The Economic Development Department (EDD) states that its ability to recruit and retain businesses in New Mexico will depend on business costs within the state (see “Attachment B,” for current business costs in New Mexico versus neighbors and the US).

**OTHER SUBSTANTIVE ISSUES**

According to the National Conference of State Legislatures (NCSL), New Mexico is among 28 other states with a current minimum wage rate above the federal rate of \$7.25 an hour. In Santa Fe, Albuquerque, and Las Cruces, the minimum wage rates are above the state minimum of \$7.50.

**RELATION TO OTHER BILLS**

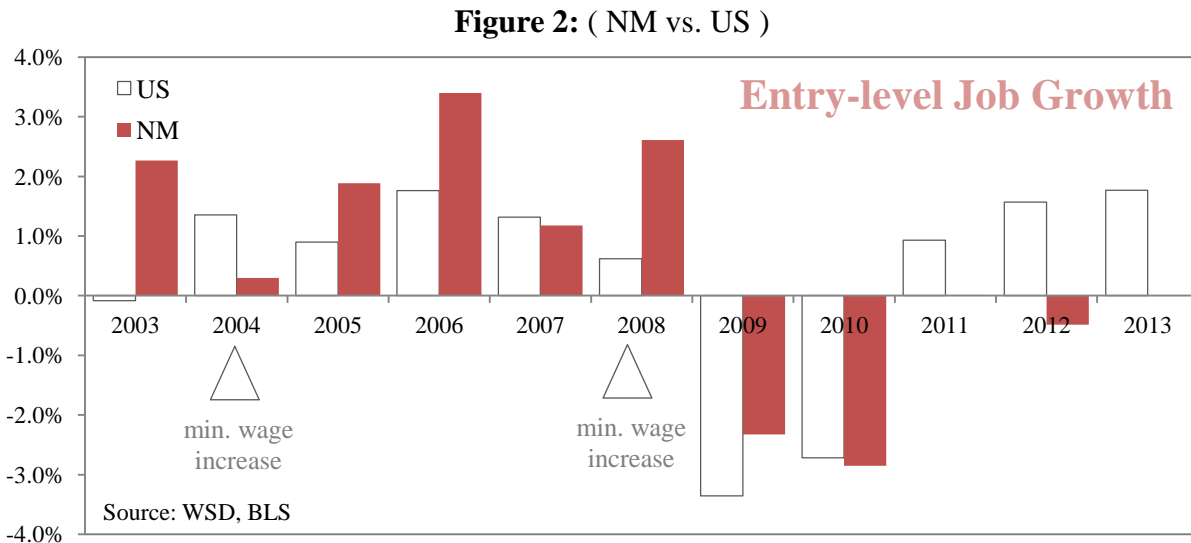
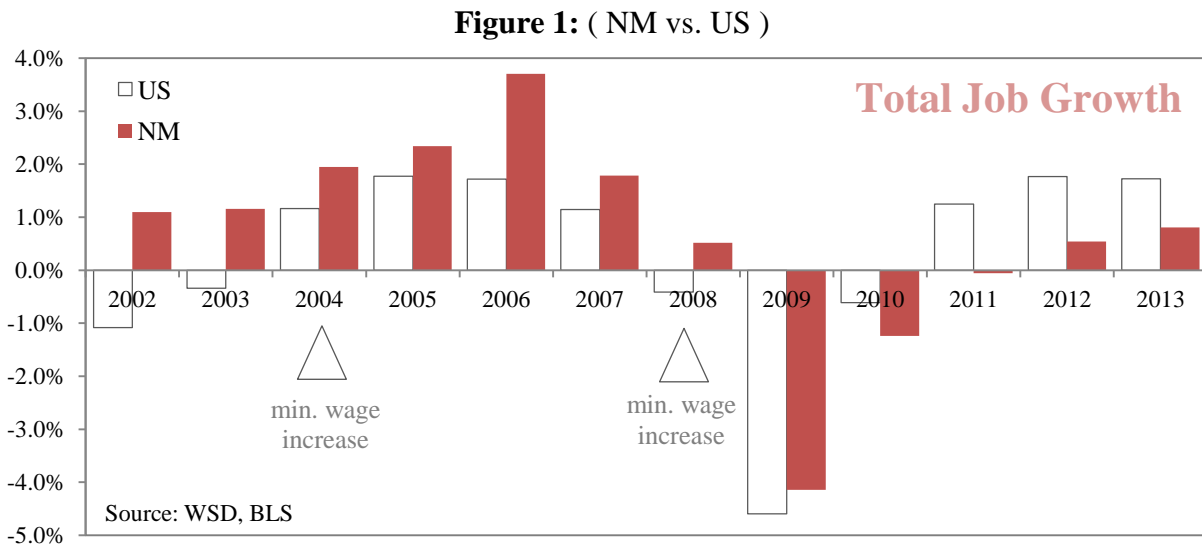
Bill	Proposed Min. Wage	Phase-in Period	Indexed to Inflation	Applies to	Other
<b>HB 20</b>	\$10.10	-	x	All employees	
<b>HB 138</b>	\$10.10	3 years	x	All employees	Tipped min. wage is 40% of non-tipped
<b>HB 360</b>	\$15.00	3 years	x	All employees	Tipped min. wage is 100% of non-tipped
<b>SB 10</b>	\$8.30	-		All employees	Excludes "trainee" employees
<b>SB 342</b>	\$10.10	-		State employees	
<b>SB 432</b>	\$10.10	2 years	x	All employees	Tipped min. wage is 50% of non-tipped
<b>SB 350</b>	\$10.10	-	x	State employees	Includes contractors
	\$7.50	-	x	Other employees	
<b>SJR 9</b>	\$7.50	-	x	All employees	Tipped min. wage is 50% of non-tipped

## ATTACHMENT A – Employment Impacts

### What are the impacts on employment?

Employment in New Mexico grew faster than the national rate throughout the minimum wage increases in 2004 and 2008-2009, according to data collected by the Workforce Solutions Department (WSD). This is displayed in figure 1, below, where the national employment growth provides a frame of reference for overall economic conditions.

Figure 2 shows the year-over-year change in entry-level employment<sup>1</sup> in New Mexico. Such job growth was markedly below the national rate in 2004; in 2008, it was markedly above.

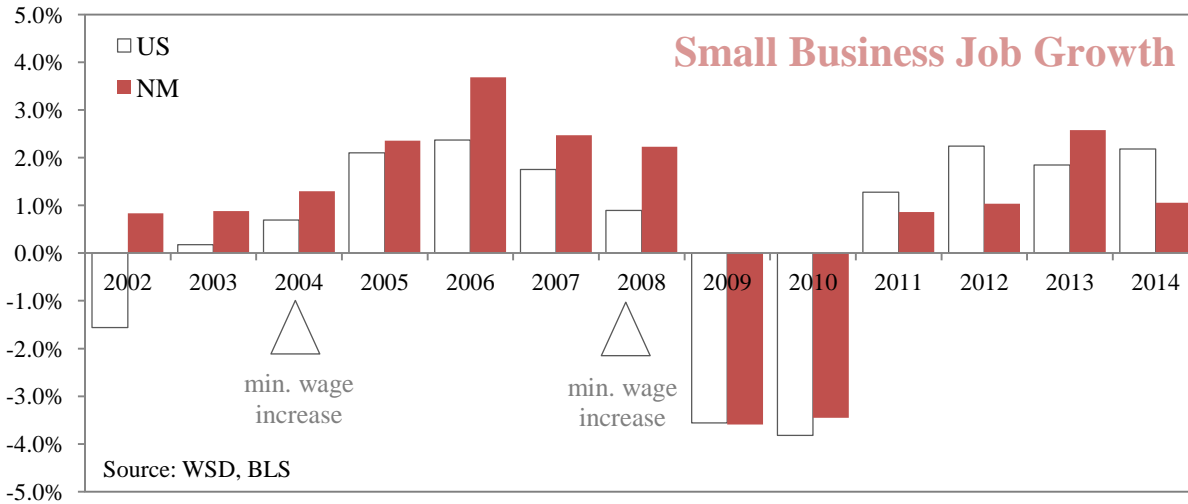


<sup>1</sup> “Entry-level” employment for each year is defined as those occupations with at least 10 percent of employees below the minimum wage increases of 2004, 2008-2009, or the proposed 2015 increase.

### What are the impacts on small business employment?

Small business in New Mexico hired additional employees faster than the national rate throughout the minimum wage increases in 2004 and 2008-2009<sup>2</sup>. Figure 3 displays the employment growth rate of privately-owned small business in New Mexico, versus privately-owned small businesses in the US. To establish a sense of the impact on these entities, government employment has been excluded from the data.

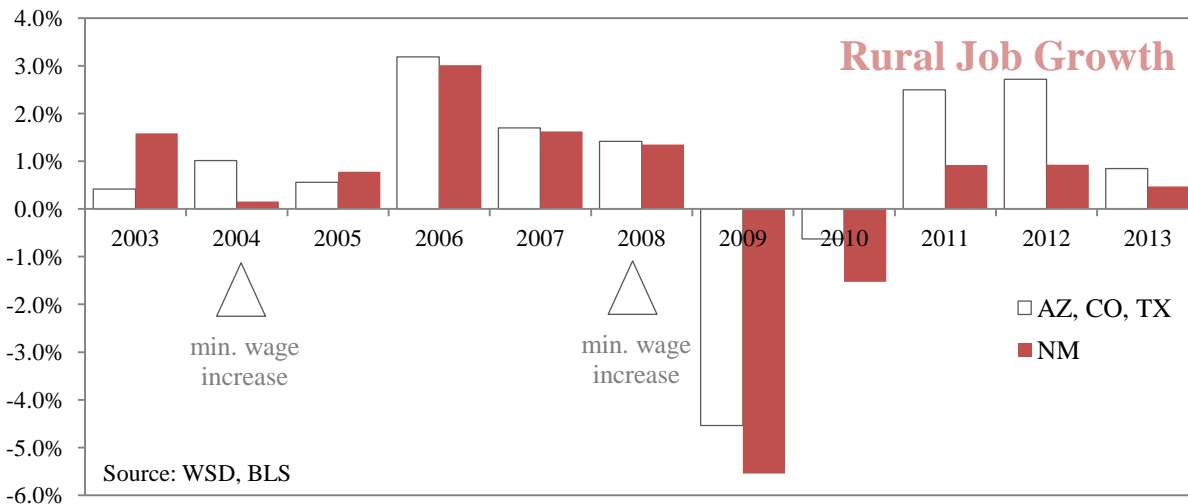
**Figure 3: ( NM vs. US )**



### What are the impacts on rural employment?

In New Mexico, there are 26 rural counties according to Economic Development Department (EDD) and the definitions of the federal Office of Management and Budget (OMB). Figure 4 displays the median job growth of nonfarm occupations in the rural NM counties between 2003 and 2013. To establish a sense of the impacts on rural businesses, government employment has been excluded from the data. The benchmark in this figure represents the median job growth in the 228 rural counties in the neighboring states of Arizona, Colorado, and Texas. New Mexico's rural job growth was markedly below its neighbors in 2004; in 2008, rural jobs grew at the same rate as the neighbors.

**Figure 4: ( NM vs. Neighbor States )**



<sup>2</sup> "Small business" in the figure represents all private establishments that have between one and 499 employees.

Deviations from the national benchmark are likely governed by factors other than New Mexico minimum wage policy. The previous figures, for example, do not record the effective dates of major changes to tax laws, capital investments, demographic shifts or economic development programs. Isolating the individual contribution of each of these factors to economic performance is not a straightforward, trivial task.

## Appendix

For those interested in further research, the WSD / BLS data presented in this attachment are listed below. Data are publicly available at the BLS page (<http://data.bls.gov/cgi-bin/srgate>), at the BLS OES page ( <http://data.bls.gov/oes/occupation.do> ) and the WSD labor market information webpage ( <http://www.dws.state.nm.us/LMI> ).

**Table 1: BLS Data used in Figure 1**

Region	Industry	Data Series ID	Region	Industry	Data Series ID
US	Total	ENU US00 010010	NM	Total	ENU 3500 010010

**Table 2: BLS Data used in Figure 2**

Region	Occupation	Dataset	Region	Occupation	Dataset
US	All	OES 2001 - 2013	NM	All	OES 2001 - 2013

**Table 3: BLS Data used in Figure 3**

Region	No. of Employees	Data Series ID	Region	No. of Employees	Data Series ID
US	< 5	ENU US00 011510	NM	< 5	ENU 3500 011510
US	5-9	ENU US00 012510	NM	5-9	ENU 3500 012510
US	10-19	ENU US00 013510	NM	10-19	ENU 3500 013510
US	20-49	ENU US00 014510	NM	20-49	ENU 3500 014510
US	50-99	ENU US00 015510	NM	50-99	ENU 3500 015510
US	100-249	ENU US00 016510	NM	100-249	ENU 3500 016510
US	250-499	ENU US00 017510	NM	250-499	ENU 3500 017510

**Table 4: BLS Data used in Figure 4**

Region	Data Series ID	Region	Data Series ID
Catron County	ENU 3500 310510	Luna County	ENU 3502 910510
Chaves County	ENU 3500 510510	McKinley County	ENU 3503 110510
Cibola County	ENU 3500 610510	Mora County	ENU 3503 310510
Colfax County	ENU 3500 710510	Otero County	ENU 3503 510510
Curry County	ENU 3500 910510	Quay County	ENU 3503 710510
De Baca County	ENU 3501 110510	Rio Arriba County	ENU 3503 910510
Eddy County	ENU 3501 510510	Roosevelt County	ENU 3504 110510
Grant County	ENU 3501 710510	San Miguel County	ENU 3504 710510
Guadalupe County	ENU 3501 910510	Sierra County	ENU 3505 110510
Harding County	ENU 3502 110510	Socorro County	ENU 3505 310510
Hidalgo County	ENU 3502 310510	Taos County	ENU 3505 510510
Lea County	ENU 3502 510510	Torrance County	ENU 3505 710510
Lincoln County	ENU 3502 710510	Union County	ENU 3505 910510

Contact LFC for series ID of rural counties in AZ, CO, TX

## ATTACHMENT B

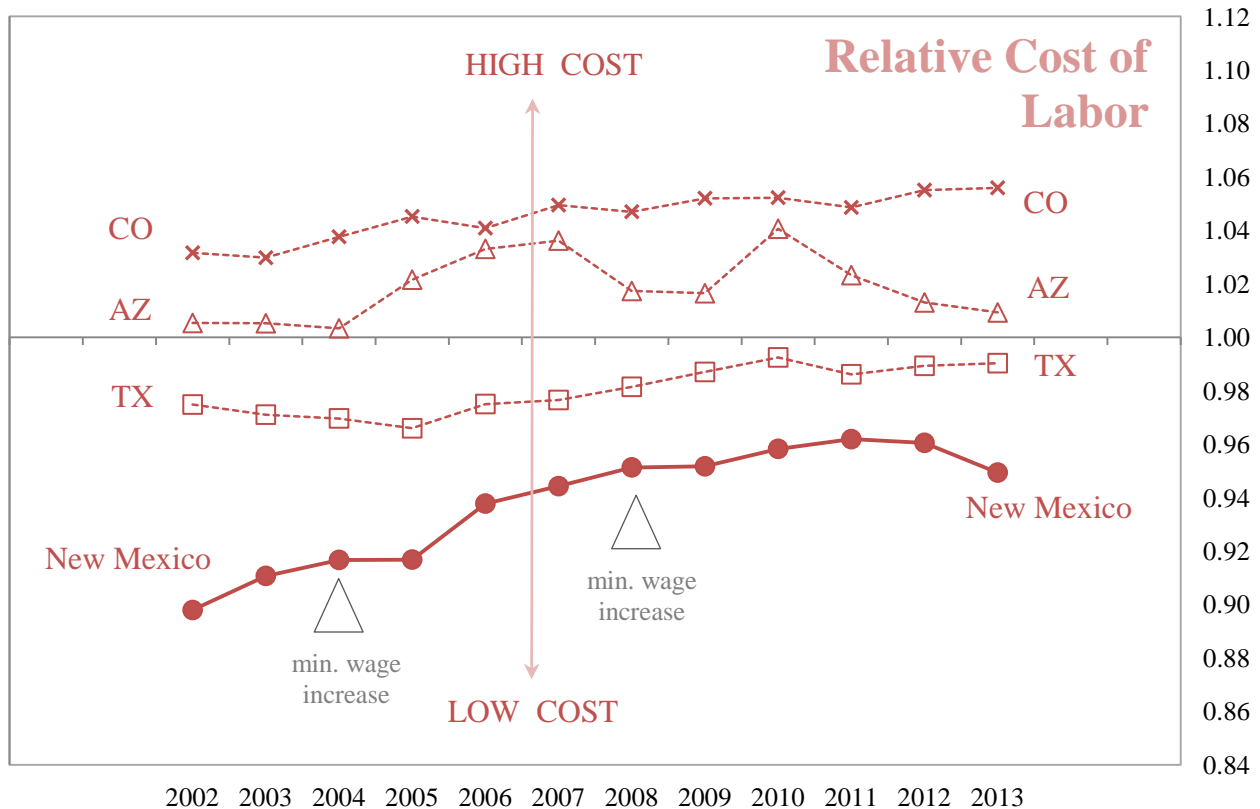
### Impact on Business Rankings and Economic Development

To produce output worth \$1.0 million, a business would need to pay its workers:

- \$ 482 thousand, if production occurred in New Mexico
- \$ 503 thousand, if production occurred in Texas
- \$ 512 thousand, if production occurred in Arizona
- \$ 536 thousand, if production occurred in Colorado
- \$ 507 thousand, if production was dispersed throughout the US

The cost of labor measures how much output is achieved per unit of wages paid to employees (unit labor cost, ULC). In these terms, the cost of labor in New Mexico is lower than neighboring states and the national average. The previous minimum wage increases in 2004 and 2008-2009 did not significantly alter New Mexico's competitive position: increases in wages were offset by increases in production. Figure 1 displays the high costs associated with labor in Colorado, versus the low costs associated with Texas and New Mexico.

**Figure 1: (NM vs. US and Neighbors)**



Source: BEA, Moody's Analytics, LFC analysis

Unit labor costs are calculated according to the methodology used in national rankings of states for doing business<sup>1</sup>.

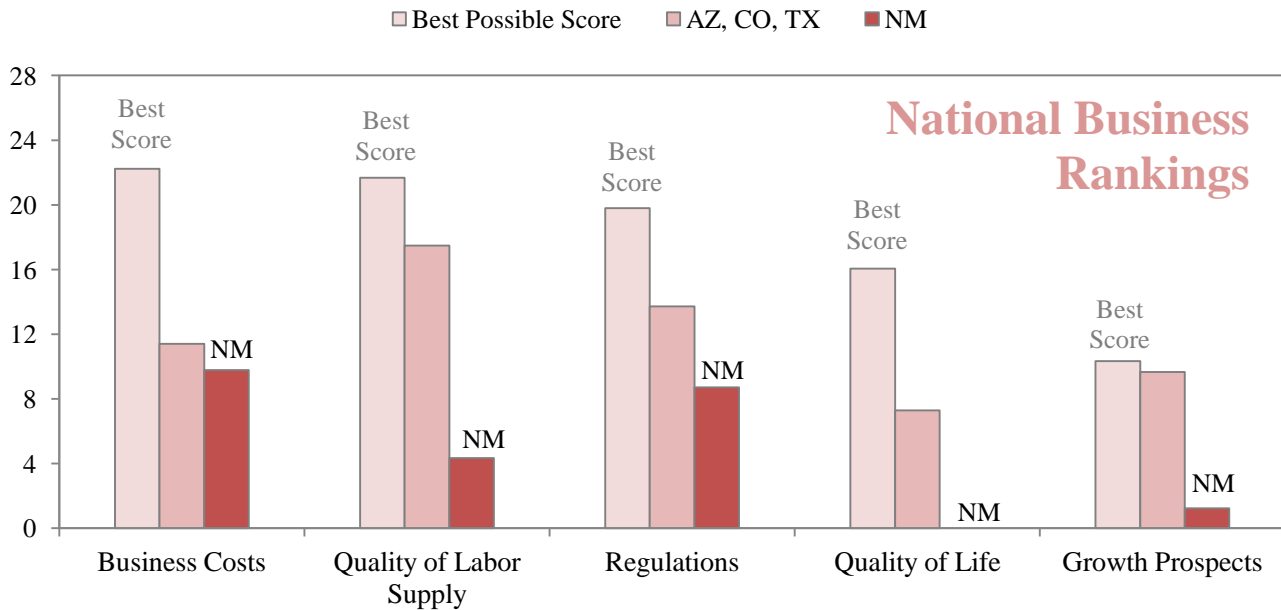
<sup>1</sup> See: *Regional Financial Review*, Sept. 2012, Moody's Analytics Inc; *BLS Handbook of Methods*, Chapter 10: Calculation Procedures, US Department of Labor, Bureau of Labor Statistics.

## Reasons New Mexico is ranked low among states for economic development

Despite low labor costs that encourage economic development, New Mexico is consistently among the low-ranking states for business, ranked 47<sup>th</sup> in the nation in 2014 by *Forbes*. The Economic Development Department (EDD) has warned that these low rankings raise a “red flag” to company site selectors.

The 2014 *Forbes* ranking was decomposed into its category scores, shown in figure 2, below. To its credit, business costs in New Mexico are comparable to its neighbors (Arizona, Colorado, and Texas). The business cost category consists of unit labor costs (see figure 1), energy costs, and the state’s tax burden. Notable obstacles to higher rankings and business development are the state’s high crime rates, high poverty rates, and education levels.

**Figure 2: (NM vs. US and Neighbors)**



Source: Forbes, LFC analysis

### Forbes Business Ranking Methodology

Category	Weight*	Description
Business Costs	25%	Unit labor costs (see figure 1), the cost of energy, and the state's tax burden
Labor Supply	24%	Quality and size of the labor force, measured by the percentage of high school and college graduates, and net migration into the state.
Regulations	22%	Government-influenced factors, including ratings on general obligation debt, the level of tax incentives, and other regulatory metrics.
Quality of Life	18%	State's poverty rate, crime rate, number of top-ranked universities, public school performance, cost-of-living.
Growth Prospects	11%	Including the current economic climate, this category incorporates the five-year forecast of the state's economy, growth in employment and personal income

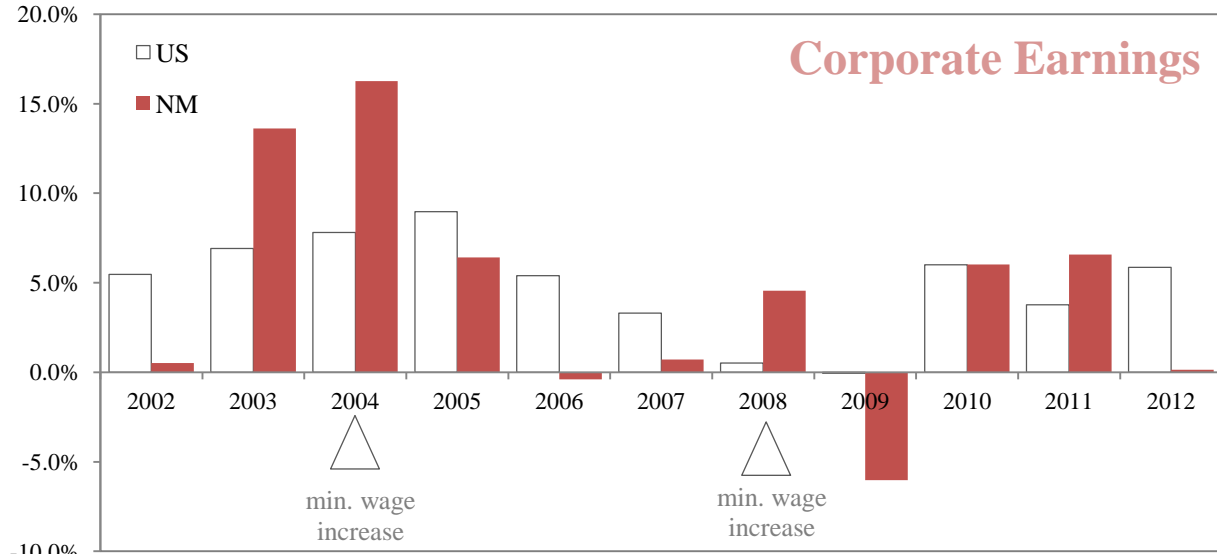
\* Estimated from ordinal logistic regression. The true weights are not published by *Forbes*.



### Impact on Corporate Earnings

Businesses in New Mexico grew their earnings faster than the national rate in 2004 and 2008, according to the Bureau of Economic Analysis (BEA). Figure 3 shows the year-over-year change in total corporate earnings for privately-owned businesses in New Mexico and the US. Corporate earnings are the gross operating surplus, defined as the revenue generated from current production minus operating expenses and production costs (including employee compensation).

**Figure 3: (NM vs. US)**

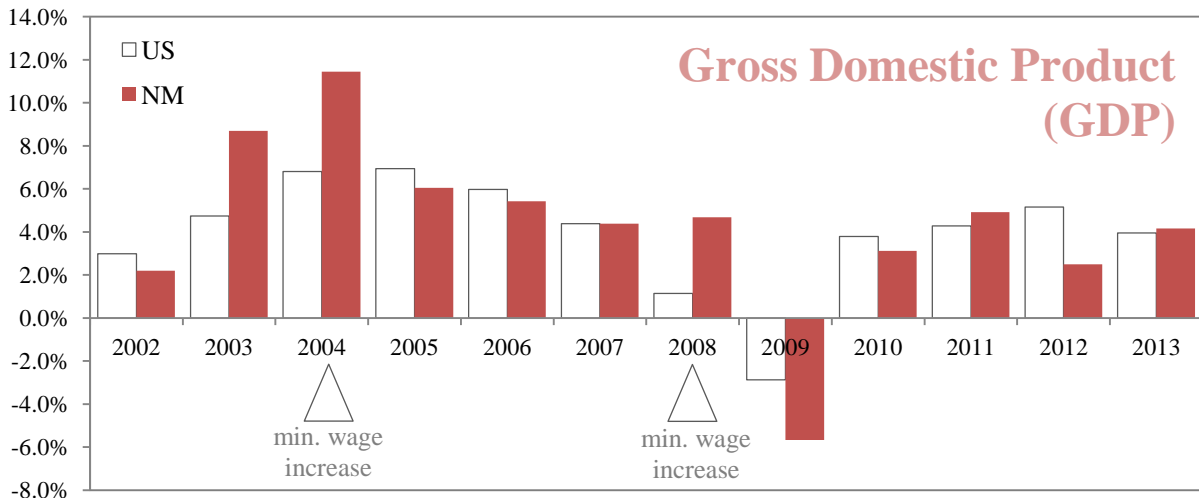


Source: BEA

### Impact on Production

Private industries in New Mexico increased their output faster than the national rate in 2004 and 2008, according to the Bureau of Economic Analysis (BEA). Figure 4 shows the year-over-year change in the gross domestic product of the US and the gross state product of New Mexico. The figure represents data from privately-owned businesses.

**Figure 4: (NM vs. US)**



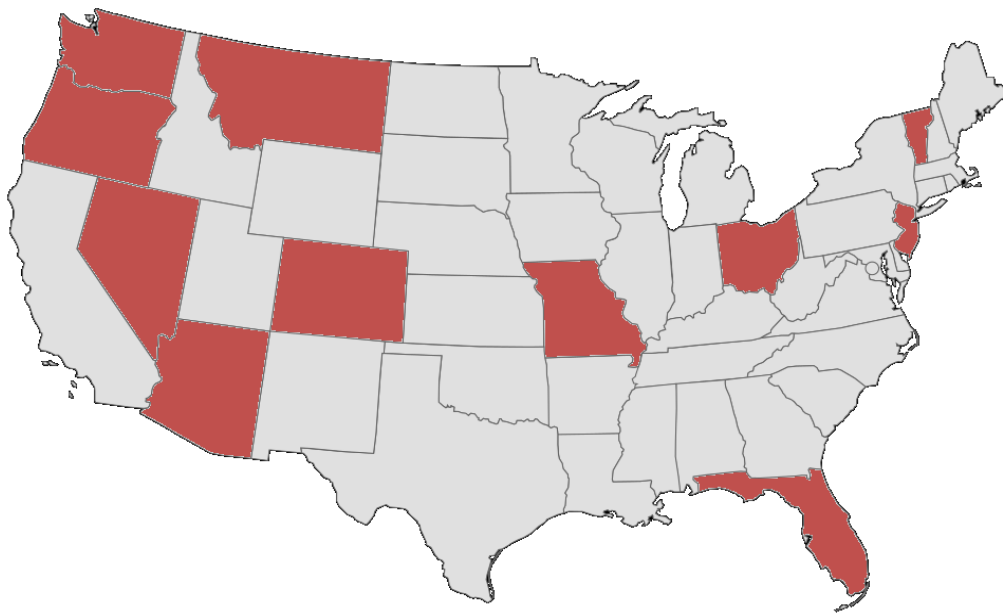
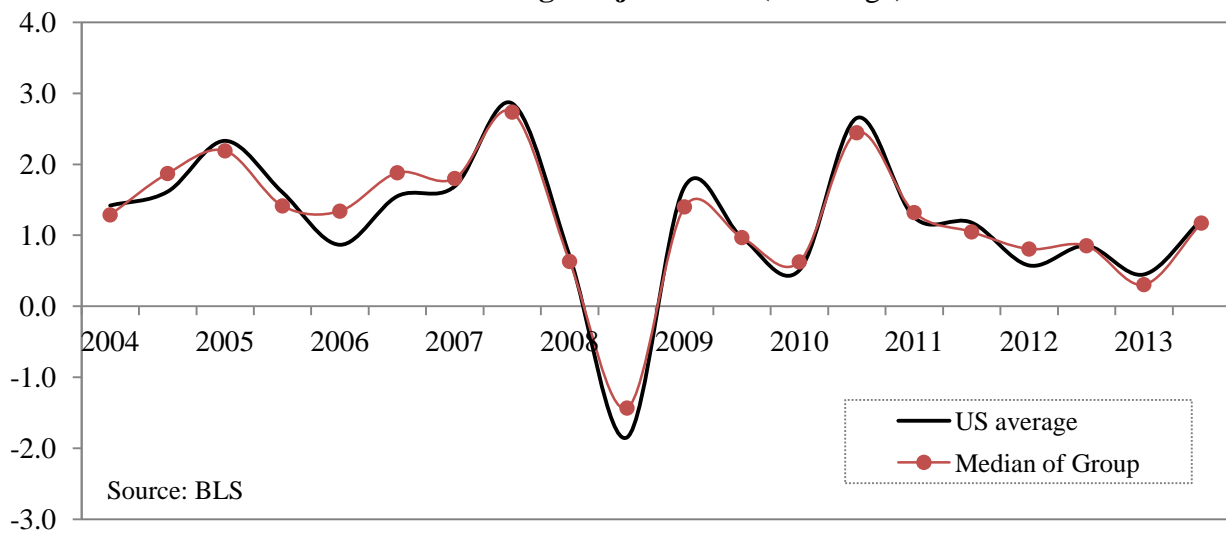
Source: BEA

## ATTACHMENT C – Impact on Consumer Prices

Employers can choose to respond to a higher minimum wage by passing through labor costs onto the consumer. This pass-through would be indicated by consumer prices that depart significantly from national prices. This has failed to occur in states that index minimum wages to inflation.

According to NCSL and BLS, there are 11 states (AZ, CO, FL, MO, MT, NJ, NV, OH, OR, VT and WA are highlighted in the map, below) that have linked their minimum wage rates to the national consumer price index (CPI). In their respective metropolitan statistical areas (MSA), Figure 1 displays the trends in regional consumer prices for this collection of states<sup>1</sup>.

**Figure 1: Consumer Prices for Metropolitan Areas with Cost-of-Living Minimum Wage Adjustments (% change)**



<sup>1</sup> Note that consumer prices are published for BLS-defined geographical regions and metropolitan areas, but not for each state; in figure 1, MSAs are used as proxies for consumer prices in the group of states.