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FISCAL IMPACT REPORT

ORIGINAL DATE 1/24/17
LAST UPDATED 1/29/17 **HB** 67aHLEDC

SPONSOR Garcia, M

SHORT TITLE Increase Minimum Wage **SB** _____

ANALYST Klundt/Clark

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	\$5.0	\$5.0	\$5.0	\$15.0	Recurring, Workforce Solutions Department	General
		\$243.6	\$826.7	\$1,070.3	Recurring, State Personnel Office	General and various

(Parenthesis () Indicate Expenditure Decreases)

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Nonrecurring	Fund Affected
FY17	FY18	FY19		
	Unquantifiable	Unquantifiable	Recurring	Personal Income Taxes
	Unquantifiable	Unquantifiable	Recurring	Corporate Income Taxes

(Parenthesis () Indicate Revenue Decreases)

Relates to HB 20, HB 27, HB 134, SB 36, SB 109, SB 143

SOURCES OF INFORMATION

LFC Files

Responses Received From

Workforce Solutions Department (WSD)

State Personnel Office (SPO)

U.S. Department of Labor (DOL)

National Conference of State Legislatures (NCSL)

SUMMARY

Synopsis of HLEDC Amendment

The Labor and Economic Development Committee's Amendment to House Bill 67 proposes a three-year delay in the implementation of the yearly cost-of-living increases called for under the original version of the bill. Instead of requiring these yearly increases to take effect as of January 1, 2018, the Amendment defers the start date of the cost-of-living increases to January 1, 2021. This is the only change. This Amendment clears up any confusion about how the cost of living increases originally proposed to begin in 2018 would impact the specified minimum wage rate increases for 2018, 2019, and 2020.

Synopsis of Original Bill

House Bill 67 amends Section 50-4-22 NMSA 1978 regarding "Minimum Wages." The bill proposes to phase in a minimum wage increase from \$7.50 to \$10.10 over three calendar years, starting on January 1, 2018. Tipped employees shall be paid a minimum hourly wage that is equal to forty percent of the minimum wage proposed in HB 67 Subsection A. In addition, the bill proposes to index increases to increases in the regional cost-of-living index. The cost-of-living adjustment is measured as the year-over-year August increase of the consumer price index (CPI-U), as published by the United States Department of Labor. The proposed legislation would require the Workforce Solutions Department (WSD) to calculate changes to the minimum wage and notify employers by November of each year any increases that will become effective on the next January 1. The minimum wage may not be adjusted upward by more than 4 percent in any one year as a result of an increase in the CPI.

FISCAL IMPLICATIONS

The Workforce Solutions Department (WSD) reported the Labor Relations Division (LRD) would be impacted in that it would have to update its website information, Wage and Hour employer/employee presentations and all WSD publications, which have a published minimum wage rate each January 1. Additionally, LRD would assume the task of publishing New Mexico's adjusted minimum wage rate by November 1 of each year. WSD estimated this would cost \$5 thousand each fiscal year.

The State Personnel Office (SPO) reported 225 state employees across all salary plans fall below \$8.40 per hour. The annualized salary cost (excluding benefits) to bring these employees to \$8.40 per hour would be \$384,800 (based on 2,080 hour year). The annualized cost with benefits would be $\$384,800 \times 1.2664 = \$487,311$. The cost to the State from January 1, 2018 until June 30, 2018 would be \$243,655.

Additionally, 398 state employees across all salary plans fall below \$9.20 per hour projected for January 1, 2019. The annualized salary cost (excluding benefits) to bring these employees to \$9.20 per hour would be \$536,016 (based on 2,080 hour year). The annualized cost with benefits would be $\$536,016 \times 1.2664 = \$678,811$. The cost to the State from January 1, 2019 until June 30, 2019 would be \$339,405. The total fiscal year cost for FY19 is \$826,716.

Finally, the annualized cost to bring 535 employees up to \$10.10 per hour projected for January 1, 2020, is \$844,376 in wages. The annualized cost including benefits is $\$844,376 \times 1.2664 = \$1,069,318$.

Previous analysis stated unquantifiable but positive impacts to personal income taxes (PIT) may result from raising the minimum wage. Any positive increases may partially be offset by lower employment levels due to fewer minimum wage jobs. However, the effective PIT rate increases as the income level of a person increases, particularly in the lower income strata, so the net effect is likely to be a positive PIT revenue impact. For example, one person making \$25 thousand annually will contribute more than double the PIT revenues that two people each making \$12.5 thousand would contribute. In FY16, PIT contributed \$1.3 billion, or 23.2 percent of recurring revenues, to the general fund.

Unquantifiable impacts to corporate income taxes (CIT) may also result from raising the minimum wage. In FY16, CIT contributed \$118.5 million, or 2.1 percent, to the general fund.

SIGNIFICANT ISSUES

The federal minimum wage has remained at \$7.25 an hour since 2009, however many states have adopted higher minimum wage laws. According to the National Conference of State Legislatures (NCSL) in 2017, 19 states began the new year with higher minimum wages. Seven states (AK, FL, MO, MT, NJ, OH, SD) automatically increased their rates based on the cost of living, five states (AZ, AR, CO, ME, WA) increased their rates through ballot initiatives previously approved by voters, and seven states (CA, CT, HI, MA, MI, NY, VT) did so as a result of legislation passed in prior sessions. Washington D.C., Maryland and Oregon are scheduled to raise their respective minimum wages on July 1, 2017 due to previously enacted legislation.

Currently, 29 states and D.C. have minimum wages above the federal minimum wage of \$7.25 per hour.

Five states have not adopted a state minimum wage: Alabama, Louisiana, Mississippi, South Carolina and Tennessee. New Hampshire repealed their state minimum wage in 2011 but adopted the federal minimum wage by reference.

The current minimum wage rate in New Mexico is \$7.50, which is higher than the federal minimum wage. State minimum wage rates are controlled by the respective legislatures within the individual states. The Fair Labor Standards Act (FLSA) 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. The LRD's Wage and Hour Bureau enforces the Minimum Wage Act. The Bureau investigates and gathers data on wage issues to enforce compliance with the Act.

SPO reported by providing salary increases only to employees who earn salaries below the new annual minimum wage, the State's pay systems may experience pay compression. Pay compression exists when there is very little difference in pay rates for new employees versus experienced employees who are performing the same job duties. It also exists when employees who perform small sized jobs are paid the same as employees who perform larger jobs. The agency believes noticeable differences in pay rates should exist between jobs that are distinctly different based on job related criteria, such as education, experience, and/or tenure.

SPO also believes this bill conflicts with the purpose of the State Personnel Act, NMSA 1978, §10-9-2, which is to establish a system of personnel administration based solely on qualification and ability, in order to provide greater economy and efficiency in the management of state affairs.

SPO also stated HB67 prohibits the minimum wage rate from being adjusted downward if the CPI-U is negative for a 12-month period ending in August. Should a conflict occur between the State minimum wage and the Federal minimum wage, the higher of the two will apply.

HB67 proposes the hourly minimum wage be raised to fixed hourly rates for 2018, 2019 and 2020. HB67 also proposes the minimum wage to be increased each January 1 by a factor equal to the increase in the cost of living beginning in 2018, not to exceed 4 percent in any one year. SPO also believes because HB67 sets fixed minimum wage hourly rates for the first three years but also calls for an increase in the minimum wage for those same years based on the cost of living factor, there may be a conflict in the bill language.

RELATIONSHIP

Bill Number	Short Title
House Bill 20	Public Works Prevailing Wage and Projects
House Bill 27	Increase Minimum Wage
House Bill 134	School Personnel Minimum Salaries
Senate Bill 36	Raise Minimum Wage
Senate Bill 109	Workforce Solutions Gender-Neutral Language
Senate Bill 143	NM Infrastructure Investment Act

Senate Bill 36 raises New Mexico’s base minimum wage rate to \$8.45 an hour beginning July 1, 2017, except that employers with ten or fewer employees would only have to pay a minimum wage of \$7.50 an hour. Employers with ten or more employees may pay trainee employees a minimum wage of \$7.50 an hour for the first six months of employment, after which the minimum wage of \$8.45 an hour would apply. SB 36 increases the minimum wage rate for tipped employees to \$2.65 an hour. Starting January 1, 2018, the minimum wage rates applicable to all of the aforementioned categories of employers will be subject to annual increases according to CPI-based cost-of-living criteria. SB 36 requires the WSD to publish the adjusted minimum wage rates for each upcoming calendar year by November 1 of the current year.

House Bill 27 raises New Mexico’s base minimum wage rate for all employees to \$15 an hour beginning January 1, 2018. As of January 1, 2019 and each succeeding January 1 thereafter, the base minimum wage would be subject to annual CPI-based cost-of-living increases. HB 27 eliminates the separate minimum wage for tipped employees. HB 27 requires the WSD to publish the adjusted minimum wage rate for each upcoming calendar year no later than November 1 of the current year. All annual increases required by HB 27 would be capped at 4 percent. The minimum wage rate will not be subject to downward adjustment due to decreases in the cost of living.

OTHER SUBSTANTIVE ISSUES

States with Minimum Wages Higher than the \$7.25/hr Federal	
D.C.	\$ 11.50
Massachusetts	\$ 11.00
Washington	\$ 11.00
California	\$ 10.50
Connecticut	\$ 10.10
Arizona	\$ 10.00
Vermont	\$ 10.00
Alaska	\$ 9.80
Oregon	\$ 9.75
New York	\$ 9.70
Rhode Island	\$ 9.60
Minnesota	\$ 9.50
Colorado	\$ 9.30
Hawaii	\$ 9.25
Maine	\$ 9.00
Nebraska	\$ 9.00
Michigan	\$ 8.90
Maryland	\$ 8.75
West Virginia	\$ 8.75
South Dakota	\$ 8.65
Arkansas	\$ 8.50
New Jersey	\$ 8.44
Delaware	\$ 8.25
Illinois	\$ 8.25
Nevada	\$ 8.25
Montana	\$ 8.15
Ohio	\$ 8.15
Florida	\$ 8.05
Missouri	\$ 7.65
New Mexico	\$ 7.50

Source:USDOL/PEW Charitable Trust

KK/jle/al/sb