SB 280

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 280 (Senator McCray, *et al.*)
Finance Economic Matters

Labor and Employment – Payment of Wages – Minimum Wage (Fight for Fifteen)

This bill phases in an increase in the State minimum wage to $15.00 per hour by January 1, 2025, with a longer phase-in for employers with 14 or fewer employees. The Board of Public Works (BPW) may temporarily suspend a scheduled increase in the State minimum wage for one-year under specified circumstances. The bill alters the applicability of specified subminimum wages and requires regulations to be adopted regarding wage statements of tipped employees. Additionally, the Governor's proposed budget must include specified rate increases for several types of health care providers over the funding provided in the prior year's legislative appropriation, which are subject to the same one-year suspension provisions as the minimum wage. **The bill takes effect June 1, 2019.**

Fiscal Summary

State Effect: No material effect in FY 2019. State expenditures (55% general funds, 45% federal funds) increase by $178.8 million in FY 2021, escalating to $712.2 million in FY 2024 due to the cumulative impact of rate increases for health care providers; revenues increase for the federal share. State expenditures (all funds) increase by *at least* $2.4 million in FY 2020 for additional payroll costs, rising to at least $43.4 million in FY 2024; federal fund revenues may cover some of these costs. General fund expenditures increase by $405,800 in FY 2020 for enforcement, with ongoing costs. General fund revenues increase minimally beginning in FY 2020. **This bill establishes mandated appropriations for FY 2021 through 2026.**

($ in millions)	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
FF Revenue	$0	$80.46	$165.37	$253.34	$343.06
GF/FF Rev.	-	-	-	-	-
GF Expenditure	$0.41	$98.69	$188.02	$277.88	$369.53
FF Expenditure	$0	$80.46	$165.37	$253.34	$343.06
GF/SF/FF/HE Exp.	$2.41	$9.64	$20.24	$31.74	$43.45
Net Effect	($2.82)	($108.33)	($208.26)	($309.62)	($412.97)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Generally, local government expenditures increase significantly beginning in FY 2020. Any change in local government tax revenues cannot be reliably projected but is expected to be minimal.

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Mandated Rate Increases

For fiscal 2021 through 2026, the Governor's proposed budget for the Developmental Disabilities Administration (DDA) must include an annual 4.0% rate increase for community service providers over the funding provided in the prior year's legislative appropriation.

For fiscal 2021, the Governor's proposed budget for behavioral health reimbursement (including for Medicaid recipients) must include a 4.0% rate increase for community service providers over the funding provided in the prior year's legislative appropriation (instead of a 3.0% rate increase if the Behavioral Health Administration (BHA) does not implement a specified payment system for use in fiscal 2021). Rate increases are also required for fiscal 2022 through 2026. Specifically, the rate increase for specified community providers (over the funding provided in the prior year's legislative appropriation) that must be included in the Governor's proposed budget for behavioral health reimbursement fluctuates as follows:

- 3.5% for fiscal 2022;
- 3.25% for fiscal 2023;
- 3.0% for fiscal 2024; and
- 4.0% for fiscal 2025 and 2026.

The Governor's proposed budget for fiscal 2019 and each fiscal year thereafter must be presented in the same manner, including object and program information, as in the fiscal 2018 budget.

For fiscal 2021 through 2026, the Governor's proposed budget must include a 4.0% rate increase over the funding provided in the prior year's legislative appropriation for provider reimbursement in Medicaid and the Maryland Children's Health Program for the following services: nursing home services, medical day care services, private duty nursing services, personal care services, home and community-based services, and services provided through the Community First Choice program. The Governor's proposed budget for fiscal 2021 and each fiscal year thereafter must be presented in the same manner, including object and program information, as in the fiscal 2020 budget.

Maryland Wage and Hour Law

The bill specifies that, unless the federal minimum wage is set at a higher rate, the State minimum wage generally is as follows:

- $11.00 per hour as of January 1, 2020;
- $11.75 per hour as of January 1, 2021;
- $12.50 per hour as of January 1, 2022;
- $13.25 per hour as of January 1, 2023;
- $14.00 per hour as of January 1, 2024; and
- $15.00 per hour as of January 1, 2025.

The State minimum wage for a small employer (an employer that employs 14 or fewer employees) is as follows:

- $11.00 per hour as of January 1, 2020;
- $11.60 per hour as of January 1, 2021;
- $12.20 per hour as of January 1, 2022;
- $12.80 per hour as of January 1, 2023;
- $13.40 per hour as of January 1, 2024;
- $14.00 per hour as of January 1, 2025;
- $14.60 per hour as of January 1, 2026; and
- $15.00 per hour as of July 1, 2026.

By October 1, 2020, and October 1 each year thereafter until October 1, 2024, BPW must determine whether the seasonally adjusted total employment is negative. BPW may temporarily suspend an increase to the minimum wage rate if it determines that the year-over-year seasonally adjusted total employment is negative. If the seasonally adjusted total employment is negative, BPW may consider the performance of State revenues in the previous 6 months in determining whether to temporarily suspend an increase to the minimum wage rate. BPW may temporarily suspend an increase to the minimum wage rate only once, and if it does so, the minimum wage in effect for the period beginning the following January 1 must be the same as the rate that was in effect for the preceding 12-month period. The remaining minimum wage rate increases then take effect one-year later than the date specified. BPW must notify the Commissioner of Labor and Industry of the temporary suspension and that a rate increase for the specified community service providers for the immediately following fiscal year may not go into effect.

The Commissioner of Labor and Industry must adopt regulations, in consultation with payroll service providers and restaurant industry trade group representatives, to require restaurant employers that use a tip credit to provide tipped employees with a wage statement for each pay period that shows the effective hourly tip rate as derived from employer-paid cash wages plus all reported tips for tip credit hours worked each workweek of the pay period. The commissioner must provide notification of this on the Department of Labor, Licensing, and Regulation's (DLLR's) website.

An employer may no longer pay a training wage as authorized under the federal Fair Labor Standards Amendments of 1989 or pay 85% of the State minimum wage rate to employees younger than age 20 for the first six months of employment or to employees who work for specified amusement, recreational, or swimming pool establishments. Instead, an employer may pay 85% of the State minimum wage rate to employees younger than age 18.

Current Law:

Maryland Wage and Hour Law

The Maryland Wage and Hour Law is the State complement to the federal Fair Labor Standards Act (FLSA). State law sets minimum wage standards to provide a maintenance level consistent with the needs of the population. State law specifies that an employee must be paid the greater of the federal minimum wage (which is currently $7.25 per hour) or $10.10 per hour.

However, an employer may pay an employee a wage that equals 85% of the State minimum wage for the first six months that the employee is employed if the employee is younger than age 20. Additionally, an employer of an amusement or a recreational establishment, including a swimming pool, that meets specified conditions may pay an employee a wage that equals the greater of $7.25 or 85% of the State minimum wage. Exceptions to the minimum wage requirement also exist for a training wage and a disabled employee of a sheltered workshop under specified conditions.

The Maryland Wage and Hour Law and minimum wage requirements do not apply to certain categories of employees, including those defined as administrative, executive, or professional; certain seasonal employees; part-time employees younger than age 16; salesmen and those who work on commission; an employer's immediate family; drive-in theater employees; employees training in a special education program in a public school; employees of an establishment that sells food and drink for on-premises consumption and has an annual gross income of $400,000 or less; employees employed by an employer who is engaged in canning, freezing, packing, or first processing of perishable or seasonal fresh fruits, vegetables, poultry, or seafood; and certain farm workers.

The employer of a tipped employee is allowed a tip credit that can be applied against the direct wages paid by the employer. The employee can be paid tipping wages so long as the wages plus the tips received equal at least the minimum wage, the employee retains all tips, and the employee customarily receives more than $30.00 a month in tips. The tip credit is equal to the State minimum wage, less $3.63. Thus, the tip credit increases as the minimum wage increases, and the wage paid by employers to tipped employees remains $3.63, as long as their wages plus tips equal the minimum wage. The State and local governments are not considered employers under the tip credit provisions of the Maryland Wage and Hour Law.

If an employer pays less than the wages required, the employee may bring an action against the employer to recover (1) the difference between the wage paid to the employee and the wage required; (2) an additional amount equal to the difference as liquidated damages; and (3) legal fees. The court must award these differences in wages, damages, and counsel fees if the court determines that an employee is entitled to recovery. However, if an employer shows to the satisfaction of the court that the employer acted in good faith and reasonably believed that the wages paid to the employee were not less than the required wages, then the court must award liquidated damages of an amount less than the difference in wages or no liquidated damages.

A person who violates the Maryland Wage and Hour Law is guilty of a misdemeanor and on conviction is subject to a fine of up to $1,000.

Federal Fair Labor Standards Act

With some exceptions, similar to State law, FLSA requires that workers be paid a minimum hourly wage and that overtime compensation be paid to employees who work more than 40 hours in a week.

Mandated Rate Increases

Chapter 262 of 2014 required the Governor’s proposed budget in fiscal 2016 through 2019 for DDA to include an annual 3.5% rate increase for community service providers over the funding provided in the prior year’s legislative appropriation.

Chapters 571 and 572 of 2017 required the Governor’s proposed budget for fiscal 2019 and 2020 to include a 3.5% rate increase for community providers over the funding provided in the prior year’s legislative appropriation for specified services; for fiscal 2021, if a required payment system has not been implemented, a 3.0% rate increase must be included in the Governor’s proposed budget. For purposes of Chapters 571 and 572, “community provider” means a community-based agency or program funded by BHA or the Medical Care Programs Administration to serve individuals with mental disorders, substance-related disorders, or a combination of these disorders.

Background: As of January 2019, as shown in **Exhibit 1**, 29 states, including Maryland, and the District of Columbia mandate a minimum wage higher than the federal minimum wage of $7.25 per hour, with rates ranging from $0.25 to $6.00 above the federal rate. Eight of these states (Alaska, Florida, Minnesota, Montana, New Jersey, Ohio, South Dakota, and Vermont) automatically increase their minimum wage rate based on the cost of living (and 9 more states will begin indexing their minimum wage rates to inflation in the next five years). Five states had no mandated minimum wage, another 2 had a minimum wage set lower than the federal minimum wage (and, therefore, are subject to the federal rate), and the remaining 14 states used the federal minimum wage. Unless a state has a higher minimum wage rate, the federal minimum wage rate applies.

California, Massachusetts, New Jersey, New York, and the District of Columbia have passed laws to phase in a $15.00 minimum wage rate. Some states, such as California, New York, Ohio, and Nevada, have different minimum wage rates based on various factors like employer size, location, and health benefits offered.

Exhibit 1
States with Higher than Federal Minimum Wage, as of January 2019

State	Rate	State	Rate
District of Columbia	$13.25	Minnesota	$9.86
California*	12.00	Arkansas	9.25
Massachusetts	12.00	Michigan	9.25
Washington	12.00	South Dakota	9.10
Colorado	11.10	Nebraska	9.00
New York*	11.10	New Jersey	8.85
Arizona	11.00	Delaware	8.75
Maine	11.00	West Virginia	8.75
Vermont	10.78	Missouri	8.60
Oregon	10.75	Ohio*	8.55
Rhode Island	10.50	Montana	8.50
Connecticut	10.10	Florida	8.46
Hawaii	10.10	Illinois	8.25
Maryland	**10.10**	Nevada*	8.25
Alaska	9.89	New Mexico	7.50

*California's minimum wage is $11.00 per hour for employers with 25 employees or fewer and $12.00 per hour for employers with 26 or more employees.
*New York's minimum wage rate varies based on location, industry, and size of a business. For example, generally the minimum wage rate is $15.00 per hour for New York City employers with 11 or more employees and $13.50 per hour for New York City employers with 10 or fewer employees. In Long Island and Westchester, the minimum wage rate is $12.00; elsewhere in the state it is $11.10.
*In Ohio, employers who gross less than $314,000 must pay their employees no less than the current federal minimum wage rate.
*In Nevada, the minimum wage rate is $7.25 per hour for employees who have qualifying health benefits offered by the employer and a minimum wage rate of $8.25 per hour for all other employees.

Source: U.S. Department of Labor; National Conference of State Legislatures

Local Jurisdiction Labor Laws

Prince George's County has a local minimum wage law of $11.50 per hour. Montgomery County has a local minimum wage law of $12.25 per hour for employers with 51 or more employees and $12.00 per hour for employers with 50 or fewer employees. The county minimum wages for Montgomery and Prince George's counties do not apply to an employee who is exempt from the minimum wage requirements of the Maryland Wage and Hour Law or the federal FLSA or to an employee who is younger than age 19 and is employed no more than 20 hours in a week. Montgomery County passed legislation in

2017 to gradually increase its minimum wage so that employers with 51 or more employees are required to pay a minimum wage of $15.00 per hour effective July 1, 2021; mid-sized employers are required to pay a minimum wage rate of $15.00 per hour effective July 1, 2023; and employers with fewer than 11 employees are required to pay a minimum wage of $15.00 per hour effective July 1, 2024, and the county indexes the minimum wage rates to inflation. An employer may pay a wage equal to 85% of the county minimum wage to an employee younger than age 20 for the first six months that the employee is employed.

Baltimore City enacted a city minimum wage rate in 1964, which was challenged in the State Court of Appeals in *Mayor of Baltimore v. Sitnick*, 254 Md. 303, 255 A.2d 376 (1969). The court found that the State's minimum wage rate did not preempt Baltimore's minimum wage law since Baltimore's law supplemented the State law by setting a higher rate. Baltimore City still has its own minimum wage statute with an enforcement commission, which currently enforces the State minimum wage rate in the city.

Effects on the Economy

There is much debate on how raising the minimum wage affects the economy. Positive impacts on the economy may include (1) increases in personal income; (2) decreases in employee turnover; (3) increases in local consumption; (4) higher labor force participation rates; (5) decreases in social welfare costs; and (6) higher levels of technological development, investment, and productivity.

However, on the downside, raising the minimum wage may (1) decrease demand for labor; (2) increase inflation from employers passing higher employee costs onto the consumer; (3) cause wage compression; (4) reduce local competitiveness; and (5) have disemployment effects. The disemployment effects happen when businesses hire fewer low-wage workers in response to an increase in the minimum wage; benefits to low-wage workers from increased wages may be offset by a reduction in hours worked or increased unemployment.

State Revenues: General fund tax revenues may increase minimally from increasing the State's minimum wage beginning in fiscal 2021. Individuals earning minimum wage likely have low, if any, State income tax liability so raising the minimum wage only has a minimal effect on State income tax revenues. Any increase in personal income tax revenue is likely offset from diminished revenues from businesses with higher payroll expenses and potentially from a decrease in demand for labor. Given that raising the minimum wage boosts the purchasing power of minimum wage workers and generates new consumer spending, general fund sales tax revenues may increase minimally beginning in fiscal 2020.

General fund revenues may increase minimally from penalties paid by employers who are found by DLLR to be in violation of the Maryland Wage and Hour Law.

As noted below, federal fund revenues increase to cover the federal fund share of the rate increase for community service providers and *may* increase to cover a small portion of the additional payroll costs incurred by the State.

State Expenditures: Expenditure effects – for the minimum wage increase, administrative costs, and rate increases for health care providers – are addressed separately in this section.

Minimum Wage Increase

State expenditures (all funds) increase significantly as a result of incrementally raising the State minimum wage applicable to State employees to $15.00 per hour beginning January 1, 2025. **Exhibit 2** displays some of the estimated additional wages that must be paid to State employees in fiscal 2020 through 2024 under the bill; the estimated costs assume BPW does not temporarily suspend a scheduled rate increase. State expenditures increase by approximately $84.3 million annually once the minimum wage rate is $15.00 per hour for the entire fiscal year.

State expenditures increase by $2.4 million in fiscal 2020, which is the total wage effect of the difference for half that fiscal year between $10.10 and the $11.00 wage rate established under the bill. Expenditures in future years are calculated based on the difference between the $10.10 minimum wage rate required under current law versus the rates under the bill. By fiscal 2024, State expenditures increase by $43.4 million compared with the current $10.10 baseline. These costs do not take into account any future wage increases or increases in other compensation tied to wages, which may reduce the overall effect. Conversely, to combat wage compression, the State may increase wages for an employee who currently earns just above $11.00 per hour on January 1, 2020, or just above $15.00 per hour on January 1, 2025, and has more job responsibilities than a minimum wage employee. Any such wage adjustments further increase the State's expenditures, potentially significantly. To the extent the State currently pays 85% of the State minimum wage to employees between the ages of 18 and 20 for the first six months of employment, State expenditures may also increase in fiscal 2019. However, State expenditures may decrease if the State employs employees younger than age 18 and pays them subminimum wage rates.

While the Judiciary reports that its full-time employees earn more than $15.00 per hour, a small number of seasonal temporary employees are paid the State minimum wage; nevertheless, the higher minimum wage is not expected to have a material impact on the Maryland Judiciary as an employer.

Exhibit 2
Effect of Phasing in a $15.00 Minimum Wage on State Employees
Fiscal 2020-2024

Additional Staffing Costs	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Senior citizen aides	$42,291	$167,557	$307,472	$421,350	$538,977
DLS employees	430	3,107	8,386	18,469	33,420
TSHRS and MTA union employees	0	0	0	13,307	109,641
MDOT contractual/temporary employees	0	0	0	0	46,458
SPS university employees	543,862	1,784,076	3,062,060	4,642,450	6,379,251
Contractual employees in SPMS	98,259	337,126	753,481	1,403,647	2,295,851
Temporary employees in SPMS	0	0	0	0	15,814
Salaried employees in SPMS	0	28,506	174,932	449,950	843,656
St. Mary's College employees	84,645	180,297	395,675	548,909	721,274
USM Employees	1,642,261	7,140,289	15,541,146	24,237,539	32,461,664
Increase in Expenditures	**$2,411,747**	**$9,640,957**	**$20,243,151**	**$31,735,619**	**$43,446,004**
Offsetting Federal Revenues	42,291	167,557	307,472	421,350	538,977
Net Increase in Expenditures	**$2,369,456**	**$9,473,400**	**$19,935,679**	**$31,314,269**	**$42,907,028**

DLS: Department of Legislative Services
MDOT: Maryland Department of Transportation
MTA: Maryland Transit Administration
SPS: Statewide Personnel System (includes SPMS and three postsecondary institutions)
SPMS: State Personnel Management System
TSHRS: Transportation Service Human Resources System
USM: University System of Maryland

Notes: Numbers may not sum to total due to rounding. For fiscal 2024, the impact may be greater than reflected above for employees of universities.

Source: Department of Legislative Services

BPW can likely make determinations regarding temporarily suspending the scheduled minimum wage rate increases with existing resources. If BPW suspends the minimum wage for a given year, the effect of each increase in the minimum wage is delayed by one-year thereafter.

Administrative Expenses

The bill creates additional responsibilities for DLLR's Division of Labor and Industry by providing for subsequent increases in the minimum wage and altering the applicability of the subminimum wage. These changes are expected to significantly increase the number of inquiries and complaints related to payment of the minimum wage. DLLR cannot fully absorb the additional workload within existing resources and requires additional staff to respond to the increase in inquiries and complaints prompted by the bill. Additionally, DLLR must adopt regulations to require restaurant employers that use a tip credit to provide tipped employees with a wage statement for each pay period that shows the effective hourly tip rate.

DLLR advises that general fund expenditures increase by $641,123 in fiscal 2020 for eight additional employees to handle the increased workload stemming from the bill. The Department of Legislative Services (DLS) disagrees that eight positions are required but agrees some additional regular staff are needed to handle the increased workload. DLS also advises that contractual support may be needed for two years, beginning in January 2025, as three different rate increases apply to small employers within an 18-month period.

Thus, general fund expenditures increase for DLLR by $405,841 in fiscal 2020, which accounts for a one-month implementation delay from the bill's June 1, 2019 effective date. This estimate reflects the cost of hiring three DLLR wage and hour investigators to conduct outreach, respond to inquiries, investigate complaints, and enforce the new requirements and one assistant Attorney General to handle legal proceedings and adopt regulations. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Positions	4.0
Salaries and Fringe Benefits	$249,458
Operating Expenses	156,383
Total FY 2020 DLLR Administrative Expenditures	**$405,841**

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Additionally, general fund expenditures may increase depending on the number of cases filed in Maryland courts. It is unknown how many cases will be filed in court, but DLS assumes the bill does not materially affect the workload of the Judiciary.

Mandated Rate Increases for Health Care Providers

The bill establishes several mandated appropriations for fiscal 2021 through 2026. Specifically, the Governor's proposed budget for DDA for fiscal 2021 through 2026 must include an annual 4% rate increase for community service providers over the funding provided in the prior year's legislative appropriation. A portion of the funds *may* be allocated to address the impact of an increase in the State minimum wage on wages and benefits of direct support workers employed by community providers licensed by DDA. Likewise, the Governor's proposed budget for fiscal 2021 through 2026 must include an annual specified rate increase (in the range of 3.0% to 4.0% depending on the year and type of provider) for other specified health care providers over the funding provided in the prior year's legislative appropriation.

Accordingly, general fund expenditures increase by an estimated $98.4 million in fiscal 2021 and by an estimated $369.2 million in fiscal 2024 to provide the mandated rate increases to the specified health care providers. Federal fund revenues and expenditures increase by an estimated $80.5 million in fiscal 2021 and by an estimated $343.1 million in fiscal 2024. The compounding effect of the rate increases on expenditures for fiscal 2021 through 2024, by type of provider, is shown in **Exhibit 3**. In fiscal 2026, the final year of the mandated rate increases, general fund expenditures increase by an estimated $577.1 million, and federal fund expenditures (and revenues) increase by an estimated $546.5 million. These expenditures (and revenues) continue in subsequent years.

This analysis assumes BHA implements a specified payment system for use in fiscal 2021, as required under current law. If BHA does not do so, under current law, the Governor must include a 3.0% rate increase for community providers in the Governor's proposed fiscal 2021 budget over the funding provided in the legislative appropriation for the prior fiscal year. If BHA does not implement the specified payment system, expenditures for behavioral health reimbursement would be less since expenditures only increase for providing one additional percentage point over the 3.0% rate increase required under current law. Additionally, if BPW temporarily suspends a scheduled minimum wage rate increase, the effect of each increase in the provider rates is delayed by one-year thereafter.

Exhibit 3
Impact of Annual Rate Increase for Health Care Providers
Fiscal 2021-2024
($ in Millions)

	FY 2021	FY 2022	FY 2023	FY 2024
Developmental Disabilities General Fund	$27.37	$55.84	$85.44	$116.23
Developmental Disabilities Federal Fund	24.18	49.32	75.47	102.67
Developmental Disabilities Total	51.55	105.16	160.92	218.90
Behavioral Health General Fund	32.78	55.59	76.44	96.32
Behavioral Health Federal Fund	14.25	34.24	54.51	73.84
Behavioral Health Total	47.03	89.82	130.96	170.16
Nursing Homes General Fund	24.40	49.74	76.10	103.51
Nursing Homes Federal Fund	24.40	49.81	76.24	103.72
Nursing Homes Total	48.80	99.56	152.34	207.24
Medical Day Care General Fund	2.53	5.14	7.86	10.69
Medical Day Care Federal Fund	2.53	5.18	7.94	10.80
Medical Day Care Total	5.06	10.32	15.80	21.49
Personal Care General Fund	0.19	0.37	0.57	0.77
Personal Care Federal Fund	0.19	0.39	0.60	0.81
Personal Care Total	0.37	0.76	1.17	1.59
Private Duty Nursing General Fund	4.06	6.64	9.15	11.76
Private Duty Nursing Federal Fund	6.08	8.42	11.01	13.71
Private Duty Nursing Total	10.15	15.06	20.17	25.48
Home and Community-based General Fund	0.47	0.96	1.47	2.00
Home and Community-based Federal Fund	0.47	0.96	1.47	2.00
Home and Community-based Total	0.94	1.92	2.94	4.00
Community First Choice General Fund	6.57	13.40	20.50	27.89
Community First Choice Federal Fund	8.36	17.05	26.09	35.49
Community First Choice Total	14.93	30.45	46.59	63.38
Total General Fund	**$98.36**	**$187.68**	**$277.54**	**$369.17**
Total Federal Fund	**$80.46**	**$165.37**	**$253.34**	**$343.06**
Total Expenditures	**$178.83**	**$353.06**	**$530.88**	**$712.23**

Note: Numbers may not sum to total due to rounding.

Source: Department of Legislative Services

Local Expenditures: Expenditures may increase significantly by fiscal 2024 for some local governments to pay employees (typically part-time or contractual employees) the minimum wage rates specified in the bill. For example, Garrett County estimates expenditures increasing by $20,552 on an annual basis when the minimum wage rate is $11.00 per hour and by $273,641 on an annual basis once the minimum wage rate is $15.00 per hour to pay employees the specified State minimum wage rates. Montgomery College estimates expenditures increase by approximately $175,000 to $200,000 for every $1.00 increase in the State minimum wage above $12.25. Other local jurisdictions may experience less of a fiscal impact. The City of College Park has no full-time or part-time employees who earn less than $15.00 per hour, so the city estimates expenditures only increase by approximately $360 on an annual basis once the minimum wage rate is $15.00 per hour to pay a few temporary workers the minimum wage rate.

Montgomery County pays community service providers a wage supplement so that direct care workers receive, on average, 125% of the county minimum wage. Thus, the county advises that the mandated rate increases for community service providers may decrease the supplement that the county would likely fund beginning in fiscal 2021.

Small Business Effect: Small businesses in the State that employ minimum wage or low-wage workers experience significant increases in their labor costs due to the bill. The impact is even greater for employers that pay subminimum wages. Beginning June 1, 2019, small businesses will no longer be able to pay 85% of the State minimum wage to employees between the ages of 18 and 20 for the first six months of employment and to employees in specified amusement, recreational, and swimming pool establishments. However, employers benefit from being able to pay employees younger than age 18 subminimum wage rates until the employee reaches the age of 18.

Restaurant employers that include a tip credit as part of the wage of an employee must provide tipped employees with a wage statement for each pay period showing the effective hourly tip rate. This places an administrative burden on restaurant employers, and they may incur additional expenses for making changes to their payroll system.

To the extent that higher wages increase worker productivity, businesses would be less affected by the provisions of the bill. Additionally, minimum wage workers tend to have a low saving rate, so increasing their wages could lead to additional consumer spending for goods and services sold by small businesses.

Additional Information

Prior Introductions: None.

Cross File: HB 166 (Delegate Fennell, *et al.*) - Economic Matters.

Information Source(s): Garrett and Montgomery counties; Maryland Association of Counties; City of College Park; Maryland Municipal League; Office of the Attorney General; Judiciary (Administrative Office of the Courts); University System of Maryland; St. Mary's College of Maryland; Department of Budget and Management; Maryland Department of Health; Department of Labor, Licensing, and Regulation; Maryland Department of Transportation; U.S. Department of Labor; U.S. Bureau of Labor Statistics; National Conference of State Legislatures; Department of Legislative Services

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