SB 690

Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 690 (Senator Pinsky, *et al.*)
Finance

Labor and Employment - Minimum Wage Increase

This bill requires employers to pay the greater of the federal minimum wage or a wage that equals a rate of $6.60 per hour to employees subject to federal or State minimum wage requirements.

Fiscal Summary

State Effect: General fund administrative expenditure increase of $44,000 in FY 1998, which reflects the bill's October 1 effective date. Potential indeterminate increase in general fund expenditures for increased contract costs. Future year expenditures reflect annualization and inflation. Indeterminate effect on income tax revenues as discussed below.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	$0	$0	$0	$0	$0
GF Expenditures	$44,000	$49,000	$51,000	$52,000	$54,000
Net Effect	$44,000	$49,000	$51,000	$52,000	$54,000

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

Local Effect: Indeterminate effect on local revenues and expenditures. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Meaningful impact on small businesses as discussed below.

Fiscal Analysis

Background: The federal minimum wage increased from $4.25 per hour to $4.75 per hour on October 1, 1996. The federal minimum wage will increase again on September 1, 1997 to $5.15 per hour. Currently, Maryland adopts federal minimum wage standards.

State Revenues: The increase in the minimum wage would result in increased individual

State income tax collections; the total increase will depend upon the income earned, the number of exemptions claimed by the employee, and any qualifying earned income tax credit claimed. The higher minimum wage would also result in decreased corporate State income tax revenues because operating expenses would increase due to the higher base wages, decreasing the amount of taxable corporate income. The potential decrease in corporate income taxes will affect both general and special fund revenues because approximately 25% of this revenue is allocated to the Transportation Trust Fund (TTF).

State Expenditures: State government is exempt from these provisions and would not be required to pay the higher minimum wage. However, to the extent that State government contracts with companies that pay less than the proposed minimum wage, labor costs in all such contracts may cause expenditures to increase. Information is not available to determine the amount of any such increase.

The Department of Labor, Licensing and Regulation will also need to hire two additional Investigators to conduct investigations into the anticipated 1,000 additional complaints regarding non-payment of the minimum wage each year. In addition, the department will need to pay $2,000 in contractual services in the first year for the printing of required minimum wage posters for over 110,000 work places. Currently all complaints about non-payment of minimum wage are forwarded to the federal Department of Labor.

There would be an increase in general fund expenditures of $44,000 in fiscal 1998. This includes salaries, fringe benefits, ongoing operating costs, one-time start-up costs, and $2,000 in contractual expenses, and reflects the October 1, 1997 effective date. Future year expenditures include (1) two full salaries with 3.5% annual increases and 3% employee turnover; (2) 2% annual increase in ongoing operating expense; (3) elimination of the one-time start-up costs; and (4) reduction in contractual service costs.

In addition, there are currently an estimated 14,800 State government and University of Maryland employees who earn less than the equivalent of $6.60 per hour. If the Governor were to adopt the increased minimum wage as a matter of policy State expenditures would increase in order to provide the increased wage to State employees.

Local Effect: Local governments are exempt from these provisions and would not be required to pay the higher minimum wage. To the extent that local governments contract with companies that pay less than the proposed minimum wage, labor costs in all such contracts may cause expenditures to increase. Also, the local revenues that result from the distribution of TTF funds would decrease due to the potential reduction in corporate income tax revenue. Conversely, piggyback tax revenues could increase an indeterminate amount as a result of the increase in wages.

Small Business Effect: Small businesses that employ individuals who make less than $6.60

per hour would be meaningfully impacted by this legislation. It is estimated that in 1995 there were 400,000 workers in Maryland making less than $6.00 per hour. This increase in wages would particularly impact those businesses in the service economy and other industries that utilize low-wage workers. In addition, employers are required to make matching Social Security and Medicaid payments equivalent to 7.4% of earnings. Increased labor costs would likely be passed on to consumers.

For illustrative purposes, an individual working 40 hours per week for 50 weeks at a minimum wage of $5.15 will earn $10,300 annually. Under this bill that same employee, working for $6.60 per hour would earn $13,200 per year. Thus, employers would be required to pay over $3,100 more (including Social Security match) for a full-time employee each year.

Information Source(s): Baltimore City; Comptroller of the Treasury (Central Payroll Bureau); Department of Budget and Management; Department of Labor, Licensing, and Regulation; Maryland Chamber of Commerce; University of Baltimore; *"Weighing in on the Minimum Wage,"* Regional Financial Review; Department of Fiscal Services

Fiscal Note History: First Reader - March 6, 1997
nrd

Analysis by: Shelley Finlayson
Reviewed by: John Rixey

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 841-3710
(301) 858-3710