

Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 476 (Delegate Grosfeld. *et al.*)

Economic Matters

Labor and Employment - Livable Wage

This bill requires employers whose annual gross income is \$250,000 or more to pay the greater of the federal minimum wage or a wage that equals \$7.20 per hour in 1999 and \$7.70 per hour in 2000 and thereafter to employees who are subject to federal and State minimum wage laws. An employer whose annual gross income is \$250,000 or less is required to pay each employee who is subject to: (1) federal and State minimum wage laws at least the federal minimum wage; and (2) State minimum wage laws the highest minimum wage under the federal act, or a training wage under regulations that the commissioner adopts.

Fiscal Summary

State Effect: General fund administrative expenditure increase of \$113,300 in FY 1999, 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. Potential increase in expenditures if the State elects to adopt the increased wage.

(in dollars)	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
GF Revenues	-	-	-	-	-
GF Expenditures	\$113,300	\$87,600	\$90,600	\$93,600	\$96,800
Net Effect	(\$113,300)	(\$87,600)	(\$90,600)	(\$93,600)	(\$96,800)

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 is \$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 and one Office Clerk 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 \$5,500 in contractual services in the first year for the printing of required minimum wage posters for over 110,000 work places. The department will also have to spend \$36,200 to mail information materials to all Maryland employers. 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 \$113,300 in fiscal 1999. This includes salaries, fringe benefits, ongoing operating costs, one-time start-up costs, and reflects the October 1, 1998 effective date. Future year expenditures include: (1) two full salaries with 3.5% annual increases and 3% employee turnover; (2) 1% annual increase in ongoing operating expense; (3) elimination of the one-time start-up costs; and (4) reduction in contractual service costs.

Although the State is not subject to the provisions of the State Labor and Employment Article covering the minimum wage, the State may elect as a matter of policy to pay the higher minimum wage of \$7.20 in 1999 and \$7.70 in 2000. The Department of Budget and Management estimates increased salary costs to be approximately \$885,700 in 1999 and \$956,500 in 2000.

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 which earn gross incomes greater than \$250,000 per year and employ individuals who make less than \$7.20 per hour would be meaningfully impacted by this legislation. It is estimated that in 1995 there were 177,000 workers in Maryland making less than \$6.00 per hour. It is unknown how many of these employees work for small businesses earning gross incomes greater than \$250,000. The increase in wages would particularly impact these 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. A portion of the increased labor costs would likely be passed on to consumers.

For illustrative purposes, an individual working 40 hours per week for 50 weeks at the minimum wage of \$5.15 will earn \$10,300 annually. Under this bill that same employee working for \$7.20 per hour would earn \$14,400 in 1999 and working for \$7.70 would earn \$15,400 in 2000.

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 Legislative Services

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