

Department of Legislative Services
 Maryland General Assembly
 2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 55

(Delegate D. Davis, *et al.*)

Economic Matters

Finance

Labor and Employment - Minimum Wage - Application

This bill requires State and local governments to pay the greater of the federal minimum wage or a wage that equals a rate of \$6.15 per hour to employees subject to federal or State minimum wage requirements.

The bill takes effect July 1, 2006.

Fiscal Summary

State Effect: Total State expenditures could increase by approximately \$847,500 in FY 2007 due to additional wages and mandatory payroll taxes paid by the State, which reflects an increase of approximately \$727,100 at four-year public institutions and \$120,400 at all other State agencies. Future years reflect an estimated 3% annual decrease in the number of employees earning minimum wages.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF Exp.	120,400	116,800	113,300	109,900	106,600
Higher Ed Exp.	727,100	705,300	684,100	663,600	643,700
Net Effect	(\$847,500)	(\$822,100)	(\$797,400)	(\$773,500)	(\$750,300)

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

Local Effect: Potential minimal increase in expenditures in FY 2007 and beyond due to increased wages paid to minimum wage employees. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Current Law: See discussion below.

Background:

Maryland Minimum Wage

In the 2005 session, the General Assembly passed HB 391, which required private-sector employers to pay the greater of the federal minimum wage or a wage that equals a rate of \$6.15 per hour to employees subject to federal or State minimum wage requirements. Employers can apply a “tip credit” against the direct wages paid to employees classified as tipped employees. The tip credit is equal to 50% of the higher of the federal or State minimum wage. As a result, employers are required to pay tipped employees a wage rate that equals \$3.08 per hour. Governor Robert Ehrlich vetoed the measure, citing concerns that the bill would hurt the least skilled and educated members of the workforce and that the State would be at a competitive disadvantage with neighboring states that do not pay above \$5.15 per hour. Earlier in the 2006 session, the General Assembly overrode Governor Ehrlich’s veto, and the bill, Chapter 2 of 2006, became effective January 17, 2006. Employers, as defined by Chapter 2 of 2006, do not include State or local governments. As a result, State and local government employees are required to be paid \$5.15 per hour as specified under federal law. This bill extends the State minimum wage of \$6.15 per hour mandated by Chapter 2 to State and local government employees.

Covered Employees

Employees are considered covered by minimum wage standards through either the federal Fair Labor Standards Act (FLSA) of 1938 or Maryland statute. Certain employees are exempted from coverage including commissioned sales employees; farm workers; and executive, administrative, and professional employees who are paid on a salary basis. In addition, various minimum wage exceptions apply in specific circumstances to workers with disabilities, full-time students, student-learners, youth workers, and tipped employees.

Federal Minimum Wage

The federal minimum wage first established in 1938 has been incrementally increased and expanded to cover additional employees through subsequent amendments to FLSA. The last increase in the federal minimum wage was effective September 1, 1997. In the last several years, bills have been introduced in the U.S. Congress proposing to increase the minimum wage, but none has been enacted.

States with Higher Minimum Wage Laws

As shown in **Exhibit 1**, 17 other states and the District of Columbia mandate a minimum wage higher than the federal minimum wage of \$5.15 an hour (\$10,712 annually for a full-time worker). Of the states that mandate a higher minimum wage, seven states mandate some type of indexing. Four states require annual increases based on the percent change in a price index, while three states index relative to the federal minimum wage.

Exhibit 1 States with Higher than Federal Minimum Wage, 2006

<u>State</u>	<u>Rate</u>	<u>Increases and Indexation</u>
Washington	\$7.63	Increases annually by increase in CPI-W*
Oregon	\$7.50	Increases annually by increase in CPI-U**
Connecticut	\$7.40	Automatically increases to 0.5% above federal minimum wage if the federal rate equals or becomes higher than the state minimum; increases to \$7.65 effective 1/1/2007
Vermont	\$7.25	Beginning 1/1/2007, automatically increases annually by 5% or increase in CPI
Alaska	\$7.15	
Washington, DC	\$7.00	Automatically increases to \$1.00 above federal rate if the federal rate equals or becomes higher than the district minimum
California	\$6.75	
Massachusetts	\$6.75	Automatically increases to \$0.10 above federal rate if the federal rate equals or becomes higher than the state minimum
Rhode Island	\$6.75	
Hawaii	\$6.75	Effective 1/1/2007: \$7.25
New York	\$6.75	Effective 1/1/2007: \$7.15
Illinois	\$6.50	
Maine	\$6.50	
Florida	\$6.40	Increases annually by increase in CPI-W
Delaware	\$6.15	
Minnesota	\$6.15	
New Jersey	\$6.15	Effective 10/1/2006: \$7.15
Maryland	\$6.15	
Wisconsin	\$5.70	Effective 6/1/2006: \$6.50

*Consumer Price Index for urban wage earners and clerical workers.

**Consumer Price Index for all urban consumers.

Source: U.S. Department of Labor

State Expenditures: The bill would require that the State pay its employees \$6.15 per hour effective July 1, 2006. As a result, State expenditures could increase by approximately \$847,500 in fiscal 2007 due to additional wages and mandatory payroll taxes paid on behalf of State employees.

The Department of Budget and Management (DBM) estimates that 467 contractual employees and 6 regular employees are paid a wage of less than \$6.15 per hour. Increasing the wages paid to these employees would cost approximately \$120,400 on an annualized basis. The estimate provided by DBM did not include employees at the University System of Maryland (USM). USM advises that approximately 2,400 contractual employees who are covered by federal or State minimum wage requirements are paid a wage of less than \$6.15 per hour. Based on information provided by DBM and USM, Legislative Services estimates that wage and payroll tax expenditures would increase by approximately \$600,000 in fiscal 2007. In addition, St. Mary's College advises that increasing the minimum wage would increase its expenditures by approximately \$128,000 in fiscal 2007, which represents increased wages for approximately 600 student-employees. Morgan State University advises that the bill would have no impact, as the university currently pays its employees a minimum of \$6.25 per hour.

Future year costs would decrease by approximately 3%, which reflects the historic decrease in the number of workers who earn the minimum wage.

Local Expenditures: As a result of the bill, local governments would be required to pay a minimum wage of \$6.15 per hour. Maryland counties and cities typically pay their employees more than the federal minimum wage, with the exception of some part-time, seasonal, or recreational employees. The eight local governments surveyed by Legislative Services indicated that an increase to \$6.15 would have minimal or no impact. The impact on local governments is as follows:

- Baltimore City indicates that 220 summer employees could be affected, but that the city has already decided to pay these employees a minimum wage of \$6.15 per hour.
- Montgomery County would not be impacted due to that county's living wage regulations.
- Howard County would be minimally impacted. Fourteen workers currently earn less than \$6.15 per hour, and increasing wages to these employees would cost the county approximately \$2,300 in fiscal 2007.
- Prince George's County indicates that a limited number of short-term contractual employees would be affected.
- Caroline County indicates that it would not be significantly impacted.

- Calvert County has less than 10 part-time employees who are paid less than \$6.15 per hour.
- The cities of Laurel and Hagerstown would not be impacted.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): City of Hagerstown; City of Laurel; Montgomery County; Prince George's County; Caroline County; Calvert County; Howard County; University System of Maryland; St. Mary's College of Maryland; Morgan State University; Department of Budget and Management; Maryland Department of Transportation; Department of Labor, Licensing, and Regulation; Baltimore City; Department of Legislative Services

Fiscal Note History: First Reader - February 22, 2006
mll/ljm Revised - House Third Reader - March 24, 2006

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