HHS Item 1
October 9, 2017
Worksession
ADDENDUM

MEMORANDUM

October 6, 2017

TO: Health and Human Services Committee

FROM: Josh Hamlin, Legislative Attorney
Gene Smith, Legislative Analyst

SUBJECT: **Worksession-Addendum:** Bill 28-17, Human Rights and Civil Liberties – County Minimum Wage – Amount - Annual Adjustment

Since the worksession packet went to print, staff received the Fiscal and Economic Impact Statement (FEIS) for Bill 28-17. The FEIS:

1. Estimates a 6-year fiscal impact to the County of $10,305,069. This estimate used a projection of the minimum wage/seasonal salary schedule to identify affected grades in the schedule, and assumed that the County's current annual utilization of 579,250 hours in the affected grades.

2. Notes the potential impact on County non-profits, as the fact that the impact would not necessitate a change in community grant expenditures for the County. It further states that if the County were to provide additional funding to allow affected non-profits to maintain the existing level of service at the higher personnel cost structure, there would be a fiscal impact to the County. The amount of this potential impact is difficult to determine due to the lack of data regarding wages paid by these non-profits.

3. Does not estimate the impact of addressing any wage compression in the County payroll.

4. Indicates uncertainty as to whether increasing the minimum wage would increase or decrease employment or earnings among low-wage workers.

This packet contains:	Circle #
Fiscal and Economic Impact Statement: Bill 28-17	1

ROCKVILLE, MARYLAND

MEMORANDUM

October 5, 2017

TO: Roger Berliner, President, County Council

FROM: Jennifer A. Hughes, Director, Office of Management and Budget
For Alexandre A. Espinosa, Director, Department of Finance

SUBJECT: FEIS for Bill 28-17, Human Rights and Civil Liberties - County Minimum Wage - Amount - Annual Adjustment

Please find attached the fiscal and economic impact statements for the above-referenced legislation.

JAH:fz

cc: Bonnie Kirkland, Assistant Chief Administrative Officer
Lisa Austin, Offices of the County Executive
Joy Nurmi, Special Assistant to the County Executive
Patrick Lacefield, Director, Public Information Office
David Platt, Department of Finance
Dennis Hetman, Department of Finance
Corey Orlosky, Office of Management and Budget
Felicia Zhang, Office of Management and Budget

Fiscal Impact Statement
Bill 28-17 Human Rights and Civil Liberties-County Minimum Wage-Amount-Annual Adjustment

1. **Legislative Summary.**

   Bill 28-17 would increase the County minimum wage to $15.00 per hour effective July 1, 2020. Under the bill's transition provision, the County minimum wage would increase from $11.50 effective July 1, 2017 to $12.50 per hour July 1, 2018, $13.75 per hour July 1, 2019, and $15.00 per hour July 1, 2020. The bill would provide a delayed implementation schedule for businesses employing 25 or fewer employees, transitioning from $11.50 effective July 1, 2017 to $12.00 per hour July 1, 2018, $12.75 per hour July 1, 2019, $13.50 per hour July 1, 2020, $14.25 per hour July 1, 2021, and $15.00 per hour July 1, 2022. Effective July 1, 2023 and each subsequent year, the bill would increase the minimum wage rate by the average annual increase, if any, in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

2. **An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.**

   This proposed legislation would not change any County revenues or expenditures in FY18. The changes in this proposed legislation would have an expenditure impact beginning in FY19.

   The fiscal impact of this bill has been estimated using the current minimum wage of $11.50 effective July 1, 2017 as the baseline. To determine the impact, a projection of the minimum wage/seasonal salary schedule was used to determine that the changes to minimum wage would impact grades S1 through S5 in FY19 and beyond. The County currently utilizes an estimated 579,250 hours of work in grades S1 through S5. Additionally, once the minimum wage reaches $15.00, fully implemented, this legislation would provide an annual adjustment to the minimum wage by the annual increase in the CPI-W.

   The proposed legislation would add additional minimum wage increases beyond FY18, resulting in an estimated 6-year fiscal impact of $10,305,069 to the County. This estimate represents the increases proposed for FY19-FY21, and starting again in FY24 with the increase from CPI-W. The estimates assume the current number of hours worked by County employees in the affected grades on the minimum wage/seasonal salary schedule.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Minimum wage	$11.50	$12.50	$13.75	$15.00	$15.00	$15.00	$15.30
Hours worked	579,250	579,250	579,250	579,250	579,250	579,250	579,250
Cost	$7,279,601	$7,807,872	$8,573,985	$9,353,438	$9,353,438	$9,353,438	$9,540,507
Impact	$0	$528,271	$1,294,383	$2,073,837	$2,073,837	$2,073,837	$2,260,905
						Total impact	$10,305,069

Note: cost estimate includes payroll tax of 7.65%

Specifically for the Office of Human Rights, a person may file a complaint against their employer for non-compliance with the existing law and for a violation of the proposed requirements in this bill with the Maryland Department of Labor, Licensing and Regulations Employment Standard Service. It is unknown whether an increase in the minimum wage rate would affect the number of complaints filed each year from Montgomery County so case processing and closure estimates are difficult to determine at this time. These variables should not impact revenues or expenditures in the foreseeable future. The Office of Human Rights estimates a minimum cost will be required to print new minimum wage posters for the county employment community.

3. **Revenue and expenditure estimates covering at least the next 6 fiscal years.**

   See response #2.

4. **An actuarial analysis through the entire amortization period for each regulation that would affect retiree pension or group insurance costs.**

   Not applicable.

5. **Later actions that may affect future revenue and expenditures if the regulation authorizes future spending.**

   Any substantive changes to the utilization of employees on the minimum wage/seasonal salary schedule would have an impact on the estimate for the next 6 fiscal years.

6. **An estimate of the staff time needed to implement the regulation.**

   There would be minimal impact to the Office of Human Rights staff in regards to processing complaints submitted to and enforced by the Maryland Department of Labor, Licensing and Regulations Employment Standards Service. The Office of Human Rights staff would continue to address questions and provide clarification of the requirements of the law and provide educational outreach to the general community.

7. **An explanation of how the addition of new staff responsibilities would affect other duties.**

   Not applicable.

8. **An estimate of costs when an additional appropriation is needed.**

   No additional appropriation is needed.

9. **A description of any variable that could affect revenue and cost estimates.**

   Cost estimates could be affected by changes in the utilization of employees on the minimum wage/seasonal salary schedule.

There is no impact for the Office of Human Rights as the Maryland DLLR will enforce the law and process complaints.

10. Ranges of revenue or expenditures that are uncertain or difficult to project.

Not applicable.

11. If a regulation is likely to have no fiscal impact, why that is the case.

Not applicable.

12. Other fiscal impacts or comments.

This bill may impact non-profits that receive County support in the form of community grants, as well as non-competitive contracts in Health and Human Services. In the event a non-profit employs individuals at the minimum wage, their cost structure would change via this legislation. While this would not necessitate a change in community grants expenditures for the County, grant recipients employing individuals at the minimum wage could be forced to either find additional funding from other sources to cover the increased personnel costs associated with a higher minimum wage, or decrease the services provided. If the County were to provide increased funding to allow those non-profits to provide the same level of service at the higher personnel cost structure, this would have a fiscal impact to the County. This potential impact is difficult to determine at this time, due to the lack of data regarding wages paid by these non-profits.

The $15.00 per hour wage rate introduced in the bill equates to an annual salary of $31,200. This amount exceeds the grade minimum for grades 5 through 8 on the General Salary Schedule (GSS), the Office, Professional & Technical Salary Schedule (OPT), and the Service, Labor, and Trades Salary Schedule (SLT). This is not projected to have a fiscal impact, as the County currently uses the living wage requirements to serve as the floor for compensation for employees on the GSS, OPT, and SLT. The living wage is estimated to be higher than the minimum wage at all points of the next 6 fiscal years, so this bill would not impact cost estimates for those employees.

This legislation, as well as this fiscal impact statement, does not address the issue of wage compression in the County. Any action taken to address this issue would have a significant fiscal impact, which would be difficult to determine at this time.

13. The following contributed to and concurred with this analysis.

James Stowe, Office of Human Rights
Corey Orlosky, Office of Management and Budget
Lori O'Brien, Office of Human Resources

J Hughes
Jennifer A. Hughes, Director
Office of Management and Budget

10/5/17
Date

Economic Impact Statement
Bill 28-17 – Human Rights and Civil Liberties –
County Minimum Wage – Annual Adjustment

Background:

Bill 28-17 would:

- increase the County minimum wage by a certain amount;
- require the Chief Administrative Officer to adjust the County minimum wage rate each year; and
- require the Office of Legislative Oversight to conduct an annual analysis of the impact of the County minimum wage.

Under Bill 28-17, the County minimum wage that must be paid to certain employees working in the County for a private sector employer or the County government would increase to $15.00 per hour by 2020 for employers with 26 or more employees. Employers who (1) employ 25 or fewer employees (2) have tax exempt status under Section 501 (c)(3) of the Internal Revenue Code or (3) provide "home health services" or "home or community-based services," as defined under federal Medicaid regulations and receive at least 75% of gross revenues through state and federal medical programs would be required to pay at least $15.00 per hour by 2022. It would also require annual adjustments to the County minimum wage each year beginning in 2023.

1. The sources of information, assumptions, and methodologies used.

The sources of information include various economic studies that analyzed the effects of increasing the minimum wage on employment. Those studies include the following:

- David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania", The American Economic Review, Volume 84, Number 4, September 1994.

- David Neumark and William Wascher, "Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research, NBER Working Paper Series, National Bureau of Economic Research, November 2006.

- Olli Ropponen, "Reconciling the Evidence of Card and Krueger (1994) and Neumark and Wascher (2000)", Discussion Paper No. 325, Helsinki Center of Economic Research, April 2011.

- Bureau of Labor Statistics (BLS), U.S. Department of Labor, "Characteristics of Minimum Wage Workers, 2013", BLS Reports, March 2014

- Robert Pollin and Jeannette Wicks-Lim, "A $15 U.S. Minimum Wage: How the Fast-Food Industry Could Adjust Without Shedding Jobs", Working Paper Series, Political Economy Research Institute, University of Massachusetts Amherst, January 2015

- David Neumark, "The Effects of Minimum Wages on Employment," Federal Reserve Bank of San Francisco, December 21, 2015.

- Michael Reich, Ken Jacobs, Annette Bernhardt, and Ian Perry, "The Proposed Minimum Wage Law for Los Angeles: Economic Impacts and Policy Options," Center on Wage and Employment Dynamics, March 2015.

- The Seattle Minimum Wage Study Team, "Report on the Impact of Seattle's Minimum Wage Ordinance on Wages, Workers, Jobs, and Establishments Through 2015," University of Washington, July 2016.

- Michael Reich, Claire Montialoux, Sylvia Allegretto, Ken Jacobs, Annette Bernhardt, and Sarah Thomason, "The Effects of a $15 Minimum Wage by 2019 in San Jose and Santa Clara County," Center on Wage and Employment Dynamics and University of California at Berkeley, June 10, 2016

- Sylvia Allegretto and Michael Reich. "Are minimum wage increase absorbed by small price increases?" Institute for Research on Labor and Employment, November 2016.

- Fahad Fahimulla, Yi Geng, Bradley Hardy, Daniel Muhammad, and Jeffrey Wilkins, "$15 Minimum Wage in the District of Columbia: A General Equilibrium Analysis of the Economic Impact," District of Columbia Office of Revenue Analysis, February 2017.

- Jardim, Long, Plotnick, van Inwegen, Vigdor, and Wething, "Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle," June 2017.

- Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW), which provides historic data on average employment levels and wage rates by industry by county by quarter. Data is currently available through Q1 2017.

According to Neumark, "researchers offer conflicting evidence on whether or not raising the minimum wage means fewer jobs for low-skilled workers." These conflicts are based on four models:

- The "neoclassical" model or standard model of competitive labor markets predicts that a higher minimum wage will lead to job loss. This model assumes a labor market for a single type of labor. According to this model, a minimum wage that is set above the competitive equilibrium reduces employment. Employers may substitute low-skilled labor for other factors of production such as equipment or other types of capital resources. Second, higher wages and fixed factors of production imply higher prices, thereby reducing product and labor demand.

- However, since the labor market is more complex than the "neoclassical model" suggests, an alternative model is the "labor-labor substitution" framework that may not result in total job losses but will result in a shift in hiring from fewer low-skilled workers to more high-skilled workers.

- A third conceptual model as an alternative to either the "neoclassical" or the "labor-labor substitution" model is that employers have significantly more *market power* than consumers. This monopsony could be the result of pricing power by the employer, that is, he or she is able to pass along the increase in the wage rate through higher prices. This ability to pass on the wage increase is attributed to the *elastic* demand for the product by the consumers.

- Finally, a paper by Pollin and Wisk-Lim suggest that "there are four primary ways for businesses to adjust to cost increases other than reducing employment." The four ways include: 1) an increase in the minimum wage would reduce absenteeism, lower turnover and training costs, and yield higher productivity, 2) cover a share of the increase in the minimum wage by raising prices (the monopsony model), 3) allocate a share of the business revenue generated by economic growth to cover the increase in the minimum wage, and 4) redistribute overall revenues within the firm from profits to the wages of their lowest-paid workers.

In the initial stages of the academic analysis regarding the minimum wage, Card and Krueger argued that the negative employment effects on the minimum wage laws range from minimal to non-existent. In subsequent research, Neumark and Wascher analyzed the effect of increases in the minimum wage for large fast food restaurant chains that were followed by decreases in employment. Ropponen reconciled the different conclusions between Card-Krueger and Neumark-Wascher. Both studies, per Ropponen, lead to the conclusion that the conditional employment effects are positive for small fast-food restaurants but negative for big fast-food restaurants. He suggests that the effect of an increase in the minimum wage on employment is based on the location of restaurants and a demand side effect: An increase in the minimum wage would have a multiplier effect on the local economy, that is, the increase in wages would result in an increase in spending by the employees.

Alan Blinder, former Vice Chairman of the Board of Governors of the Federal Reserve System, suggests three reasons why minimum wages do not affect employment: higher wages may reduce turnover and therefore training costs, raising the minimum wage may eliminate the problem of recruiting workers at a higher wage than current workers, and minimum wage earners represent a small portion of the employer's cost such that an increase is relatively insignificant to the employer's total cost of production. These results may not necessarily apply to industries like restaurants and other small businesses where a majority of the labor cost are attributed to low wage workers.

A growing number of cities and counties including Washington D.C., Los Angeles, San Jose, and Seattle are increasing their minimum wage above the federal level, up to as much as $15.00 per hour. In a February 2017 study, the Washington D.C. Office of Revenue Analysis found the proposal to increase the minimum wage to $15.00 per hour would increase employee earnings, but the District would lose a little over 1,800 jobs and experience an increase in prices of 0.2 percent by 2021. The price increase would lower the relative price of goods in surrounding jurisdictions, resulting in a $66 million decrease in the District's GDP by 2021.

In a March 2015 study for the City Council, the Center on Wage and Employment Dynamics at the University of California-Berkeley analyzed the proposed minimum wage increase for Los Angeles. While the structure of the increases analyzed in the study varies from the increases that were implemented, they generally coincide with the findings of the February 2017 Washington D.C. study. The study found that employment would decline 0.2 percent in the City by 2019, but overall employment in Los Angeles County would increase by 0.1 percent, largely because more than half the workers that would be impacted live outside the City and spend money in the County.

In June 2017, the National Bureau of Economic Research (NBER) published an updated analysis by researchers at the Evans School of Public Policy at the University of Washington on the effects of the City of Seattle's minimum wage increase in January 2016. The authors concluded that while the increase to a $13.00 minimum wage increased hourly wages for low-wage jobs as expected, it also reduced the number of hours worked in these occupations by approximately 9.4 percent and lowered low-wage workers' earnings by $125 per month on average. The authors found that the increase in the City minimum wage from $9.47 to $13.00 resulted in a loss of 6,317 jobs at single location firms. Accounting for multi-location firms employing low-wage workers in the City, this job loss number increased to approximately 10,000.

There are considerable difficulties with using other jurisdictions as indicators for Montgomery County's potential experience. Each city and county differs in terms of the socio-economic characteristics of both the residents and workforce and labor force participation in the local and regional economy leading to differential outcomes when the minimum wage is raised. Additionally, most minimum wage increases in these jurisdictions have been recently enacted where the body of research and data from which to draw conclusions about the impact of these increases is limited.

Studies on impacts in these cities are prospective and outcomes are also impacted by other factors, such as the general state of the economy and other government interactions that are not always controlled for in prospective analyses. The conclusions about the past and scheduled increases in these comparable jurisdictions include:

- earnings, especially for low-wage workers, increase because of an increase in the minimum wage,
- businesses seek to cope with increased personnel costs through modest price increases,
- there were some small, but meaningful, declines in employment, largely among low-wage workers, but these impacts vary,

- and research also indicates that the job loss impacts of minimum wage changes tends to increase as the minimum wage rises higher, particularly in relation to prior market wages.

Montgomery County's minimum wage is, and will continue to be, higher than both the federal and State minimum wage, as well as that in all surrounding jurisdictions except the District of Columbia. This could place the County in a competitive disadvantage to neighboring jurisdictions. Additionally, unlike Seattle or New York City, the County is not considered a "destination city" that draws great numbers of business travelers or tourists that will be able to afford higher costs for short-term visits. Residents could potentially shoulder the bulk of the additional costs as a potential unintended negative impact.

Maryland's Department of Labor, Licensing and Regulation calculated a total of 471,580 jobs in Montgomery County in the first quarter of 2017 the latest date for which data are available. Of these jobs, nearly 19 percent were low-wage jobs (defined as jobs with $1,250 per month or less in earnings, which includes pre-tax wages, salaries, and self-employment income). This is a decline from 2002, when nearly 27 percent of jobs in Montgomery County were low-wage jobs. Nearly two-thirds of the low-wage jobs in Montgomery County are concentrated in retail trade, administrative services, health care and social assistance, and accommodation and food service industries. Nearly half of all jobs in the arts, entertainment, and recreation and the accommodation and food services industries are low-wage jobs whereby the impact of an increased minimum wage will likely be concentrated in these industries.

2. A description of any variable that could affect the economic impact estimates.

- The ability of the employer to pass the increase of the minimum wage to his or her customers
- The share of minimum wage earners to total employment for a business
- The elastic/inelastic demand for the business's product or service
- The costs of retraining workers
- The extent to which higher minimum wages induce greater spending in the local economy
- The relationship between higher minimum wage rates and employee productivity and morale

3. The Bill's positive or negative effect, if any on employment, spending, saving, investment, incomes, and property values in the County.

The proposed increase in the County minimum wage has the potential to provide some important benefits. An increase in earnings for low-wage County workers will have tangible positive impacts for low-income workers and their families. This should also lead to reductions in poverty, improvement in mental health and a reduction in hunger and stress among minimum wage workers. From the perspective of County employers, additional research shows a relationship between higher wages and employee productivity and morale, which would reduce turnover and the costs associated with hiring and training new employees.

At the same time, it is possible that the wage increase could lead to a potential loss of low-wage jobs or a reduction in hours worked for employees in certain industries. This loss of jobs could lead to a loss of income among County residents and the correlated effect of reduced income tax revenue for the County. Additionally, an increase in the minimum wage will lead to a cost for the County to bring its own salary schedules in line with the new wage rate to avoid wage compression. It may also require the County to increase its funding for non-profit organizations to ensure that they can maintain essential services.

There is no consensus among economists on the effects of the minimum wage and employment. Based on the review of the research, it is not certain whether an increase in the minimum wage would increase or decrease employment or overall employment earnings. This uncertainty is based on the following factors presented in Section 2:

- The ability of the employer to compensate for the increase in the minimum wage by passing such increase onto customers with higher prices
- The ability of employers to reduce hours worked for their employees
- The proportion of the wage costs among workers earning the minimum wage to the total costs of production
- The multiplier effect of increasing the minimum wage on the local economy

Finally, in the research studies presented above, the conclusions are based on the datasets used to determine the effect of the minimum wage on employment, the statistical methods used to reach those conclusions, and the model used as the theoretical framework to conduct the analysis. Continuing themes in the prior economic studies of increased minimum wages are the potential reduction in employee hours for smaller businesses that are constrained in their ability to pass on higher costs to consumers and the fact that recessions will have intensifying effects for the employment prospects for low wage earners.

4. **If a Bill is likely to have no economic impact, why is that the case?**

It is uncertain whether increasing the minimum wage would increase or decrease employment or earnings among low-wage workers. As stated in Section 3, the economic impact would be based on the assumptions and the characteristics and location of those businesses that would be required to raise the minimum wage.

5. **The following contributed to and concurred with this analysis**: David Platt, Dennis Hetman, and Robert Hagedoorn, Finance.

Alexandre A. Espinosa, Director
Department of Finance

10/5/17
Date

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