Executive Summary

In April 2016, five members of the Montgomery County Council introduced Bill 12-16 to increase the County's minimum wage to $15.00 per hour by July 1, 2020.[1] The Council passed the bill on a 5-4 vote, but it was vetoed by County Executive Isiah Leggett, who called for additional study into the potential economic impact of the increase.

This study addresses issues raised by the County Executive from four perspectives: the impact on County government, the impact on the County workforce and budget, the impact on the County economy and businesses, and the socioeconomic impact. As the findings detail, there are significant potential benefits, as well as significant economic costs associated with moving to a higher County minimum wage as proposed by Bill 12-16.

There is a significant body of research around the impacts of an increase in the minimum wage. In general, the primary benefit from an increase in the minimum wage is heightened earnings that improve the standard of living for low-wage workers. This greater purchasing power leads to improved mental health, morale, and decreased stress. The broader impacts from increased earnings include a potential reduction of poverty and overall wage inequality. Additional research has shown a connection between a higher minimum wage and a reduction in hunger and food insecurity.

Conversely, as the impact analysis conducted for the study shows, an increase in the County minimum wage would increase personnel and contract costs to the County, as well as prompt job loss and a loss of income due to these job losses. The projected loss of jobs and income would result from the actions County business owners would be expected to take in response to an increase in the minimum wage. These would include laying off employees, cutting hours and benefits, reducing training programs, and, in the extreme, possible business closures or relocation.

In short, the benefits from a minimum wage increase have the potential to be significant. However, workers who lose their jobs or are not hired as a result will not experience them.

The specific impacts of a minimum wage increase may vary depending on a variety of factors. For example, a tight labor market might ameliorate the potential job losses, while an economic downturn might exacerbate projected job and income losses. As it relates to the minimum wage increase, the County might consider additional exemptions or exceptions for small businesses or non-profits, provide a different youth worker or training wage, or provide an "off ramp" provision that halts scheduled increases during an economic downturn. Each of these changes could alter the impact of the legislation on impacted individuals and businesses.

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[1] By 2022 for businesses with 25 or fewer employees

Findings

Given the multiple potential impacts from an increase in the County minimum wage, the findings have been organized into broad categories. These encompass the impact on the County, local economy, County businesses, and socioeconomic impact.

Impact on the County Economy

1. **Based on the study's assumptions, the County is projected to experience a loss of approximately 47,000 jobs by 2022 as a result of an increase in the minimum wage from its July 2017 level of $11.50 to $15.00 per hour.** The majority of the projected job loss – approximately 45,300 positions – will be experienced by workers in low-wage positions.

Table 23: Direct Economic Impact - Jobs

Calendar Year	Direct Jobs Lost
2017	18,318
2018	22,566
2019	35,587
2020	44,215
2021	44,797
2022	45,384

2. **As a result of the projected job losses, the aggregate estimated loss of income in the County would be approximately $396.5 million from 2017 to 2022.** This figure is the net amount after accounting for loss of income among those who have lost their jobs, and those who received a higher take home pay as a result of Bill 12-16. The aggregate income loss associated with job reductions arising from a higher minimum wage is consistently greater than the baseline income projection at the current minimum wage level, even accounting for the increased income for those who remain employed.

Table 24: Direct and Indirect Economic Impacts - Income

Year	Direct Income Lost	Indirect Income Lost	Total Income Lost
2017	$240,785,166	$39,681,395	$280,466,561
2018	$224,287,542	$36,962,587	$261,250,129
2019	$329,383,264	$54,282,362	$383,665,626
2020	$331,996,865	$54,713,083	$386,709,948
2021	$336,195,663	$55,405,045	$391,600,709
2022	$340,410,235	$56,099,607	$396,509,842

3. **Survey and focus group responses indicate that $11.00 per hour is approximately the market rate for Montgomery County where employers are able to attract and retain quality lower-wage employees.** Economic research shows that increasing the minimum wage beyond the market rate causes increased job loss as more people are seeking jobs but companies are looking to hire fewer employees. Given the current minimum wage in the County is $11.50 per hour, this suggests that current policy is reflective of the market, and not likely to cause substantial disruption if left in place. The market rate is specific to a particular location and will change over time.

Impact on County Government

1. **The County budget is projected to require an additional cumulative funding of $10.0 million from FY2019 to FY2023 because of adjustments to the Minimum Wage/Seasonal Salary Schedule to reflect the new minimum wage and avoid wage compression.** This reflects the impact of adjustments for employees on the minimum wage/seasonal schedule. It does not include the costs for adjustments to the other County salary schedules, which are collectively bargained. Should these other schedules and employee pay be adjusted to avoid wage compression for higher-earning County employees, the total cost of the salary adjustment will increase. This will also increase the County's pension liability for eligible employees.

2. **The County would also experience a projected loss of income tax revenue of $40.9 million from FY2018 to FY2022.** These projections are based on the projected direct job losses among low-wage workers that will occur as a result of the minimum wage increase.

3. **The County is likely to see an increase in contract costs, as businesses subject to its Prevailing and Living Wage Statutes will pass on to the County its increased personnel costs driven by the minimum wage increase.** The project team was unable to quantify these costs due to data availability issues.

Impact on County Businesses

1. **Survey responses and focus group feedback suggest that County businesses are likely to lay off employees, replace unskilled or lower-educated employees with more qualified employees, cut remaining employee hours and benefits, suspend existing plans to invest in new locations or hire additional employees, and, at worst, close their businesses in responses to rising personnel costs driven by a minimum wage increase. The survey results are summarized in the following table.**

Table 33: How likely are you to do any of the following if the minimum wage increases to $15.00 per hour? (Employee Impacts)

	Very Unlikely	N/A/Don't Know	Very Likely
Reduce hiring	24.3%	12.5%	**63.2%**
Reduce hours per employee	27.7%	13.1%	**59.2%**
Reduce number of employees	27.3%	15.3%	**57.4%**
Decrease benefit offerings to hourly employees	28.3%	19.4%	**52.3%**
Increase experience required for employees	33.8%	16.0%	**50.1%**
Increase education required for employees	42.9%	21.1%	**36.0%**
Reduce training	55.8%	20.5%	**23.8%**

Business owners indicated that the level of job loss would accelerate as the minimum wage rose, estimating that they would reduce their lower-wage workforce by an average of 23 percent should the minimum wage reach $15.00 per hour. This sentiment aligns with minimum wage impact analysis done by Neumark, which showed that low-wage workers are the cohort most likely to lose jobs as the minimum wage increases. This is compounded by the County's schedule of five increases over a period of time (compared to a one-time increase, as was evaluated in other studies). A recent study of Seattle's minimum wage ordinance, which also features a series of increases to $15.00 per hour, indicated that low-wage workers experienced a decline in both the hours worked and number of jobs.

2. **Prior research indicates that a minimum wage increase would have benefits for employers as well.** Higher earnings tend to improve employee morale, which would reduce turnover and the costs associated with hiring and training new employees. Additionally, research indicates that employee productivity can increase as the result of a wage increase, either through employees working "harder and smarter," replacement of unskilled labor with more qualified employees, or increased use of automation.

3. **Survey and focus group responses indicate philosophical support for minimum wage increases, particularly among representatives of non-profit organizations.** However, non-profit organizations raise significant concerns that increased personnel costs will force a reduction in critical community services. Given the low-wage worker job loss projections, these cuts may come at a time when demand for services among unemployed individuals in the County will be increasing.

4. **Non-profit organization feedback indicated that the proposed increases under Bill 12-16 would cause them to seek funding increases and look to new funding sources.** In many instances, funding formulas and other program constraints mean that there is little opportunity for non-profit organizations (and the programs they run) to pass along additional costs. Because new sources of grants and private funders are limited, this would mean that they would primarily rely on seeking additional funds from the County.

Socioeconomic Impacts

1. **Research indicates that increasing the minimum wage would have socioeconomic benefits for employees.** Increased wages are associated with improved mental health, reduced hunger and decreased stress for workers and their families.

2. **Raising the minimum wage may also reduce wage inequality, particularly given the number of women working at or below the minimum wage level.** This may have a significant impact given the number of women who receive minimum wages.

3. **Non-profit and focus group feedback indicated that the proposed increases under Bill 12-16 would cause non-profits to seek funding increases and look to new funding sources.** This would include asking the County for additional funds as well as looking to grants and private funders.

4. **The business owners interviewed were often supportive of raising the minimum wage and providing a true living wage for their employees.** However, there were doubts that their organization could withstand the increase and remain profitable.

5. **The majority of minimum wage earners would continue to be eligible for social programs with a minimum wage increase to $15.00 per hour.** Workers currently eligible for program benefits while earning $11.50 per hour would remain eligible for the same program after raising the minimum wage beyond $11.50 per hour.

Modifications to Minimum Wage Increase Structure

1. **There was support among County business owners for a subminimum wage rate for workers during their initial training period.** While most business owners indicated that the youth worker subminimum rate of 85 percent of the County minimum wage rate would be acceptable, to make the rate meaningful for them from a business perspective, they need the ability to pay that rate for more than the six months allowed under State law.

2. **While some benchmark jurisdictions have alternate phase-in schedules for their minimum wage increases, none of them completely exempt small businesses.** While a complete exemption for small businesses is not common, should the County consider altering the 2016 increase proposal to include one, it would need to weigh the impact of its definition of a "small business" against the desired breadth of impact it desires the increase to have.

Conclusion

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 also projected that the wage increase will lead to a significant loss of low-wage jobs. This loss of jobs would lead to a loss of income among County residents. This also has the spillover 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.

Ultimately, the decision on how to proceed will require the weighing of multiple issues and impacts. It is likely that multiple stakeholders and policymakers will find support for their respective (even if dissimilar) positions from the findings and analysis within this study. This is, after all, a topic that has generated – and will continue to be the subject of – considerable debate. The project team believes that the economic, financial and socioeconomic analysis from this study will advance the discussion of key public policy issues in Montgomery County and beyond.