

Andrew Kleine, Chief

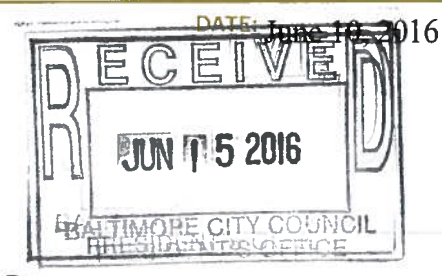
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	AGENCY NAME & ADDRESS	Bureau of the Budget and Management Research Room 432, City Hall (410 396-4941)
	SUBJECT	City Council Bill #16-0655 – Minimum Wage

CITY of
BALTIMORE
MEMO



TO

The Honorable President and
Members of the City Council
Room 400, City Hall



Attention: Ms. Natawna Austin

I am herein reporting on City Council bill 16-0655, the purpose of which is to set Baltimore City's minimum wage rate for the years 2016 to 2021, set the formula to determine Baltimore City's minimum wage from 2021 onward, and to propose a variety of changes to the Wage Commission's composition, procedures, and enforcement mechanisms.

The proposed bill would set the City's minimum wage at \$8.75 beginning on July 1, 2016 (FY 17), and then apply additional increases to \$10.00 (mid-FY17), \$10.50 (FY18), \$12.00 (FY19), \$13.50 (FY20), and finally \$15.00 (FY21). The bill would also set the wage for Youth Works workers at 85% of the afore-mentioned wage levels.

Finance looked at this bill from two different perspectives, from a budget impact, and then from a broader policy and economic impact:

Budget Impact

We see three potential cost impacts to the City's finances:

Part-Time / Temporary Employees: As of April 1, 2016, the City had 2,083 employees on the payroll that were classified as either part-time or temporary employees. Many of these employees, such as Community Aides, Seasonal Maintenance Aides, and Recreation Arts Instructors, currently earn a wage that is either at or slightly above the current State-mandated minimum wage of \$8.25 per hour. The proposed legislation sets the City's minimum wage equal to the State minimum wage in Fiscal 2017 at \$8.75 per hour. But, thereafter, the City minimum wage would exceed the State by an increasing amount per year. For purposes of this analysis, we assumed that the State minimum wage, which is only set through Fiscal 2019, would grow an additional 2% per year in Fiscal 2020 and Fiscal 2021:

Minimum Wage	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
State	\$8.75	\$9.25	\$10.10	\$10.30	\$10.50
City (proposed)	<u>\$8.75</u>	<u>\$10.50</u>	<u>\$12.00</u>	<u>\$13.50</u>	<u>\$15.00</u>
Difference	\$0.00	\$1.25	\$1.90	\$3.20	\$4.50

Comments

As the City minimum wage increases beyond the State minimum, many of the City's part-time and temporary workers' hourly wages would fall below the new City-mandated minimum wage. Bringing these wages up to the new minimum would have a direct cost impact to the City:

Impact	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
Employees Affected	0	936	1,162	1,475	1,571
Cost Impact (\$ millions)	\$0.0	\$0.4	\$1.7	\$3.6	\$5.7

Pay Compression: The proposed legislation would not directly affect the City's full-time employees. The City's lowest-paid full-time employees already earn nearly \$14 per hour. With 2% wage growth per year these employees would already exceed the \$15 minimum wage by Fiscal 2021.

However, the increase in the minimum wage will put upward pressure on overall wages in order to maintain the salary differential between lower-skilled, higher-skilled, and supervisory workers. For example, the legislation would directly raise the wages of Seasonal Maintenance Aides, which in turn would put upward salary pressure on higher-skilled Laborer positions in AFSCME, which would put pressure on Crew Leaders, and then supervisors, and so forth. The same spillover effect would occur in CUB between the lowest-paid Community Aides and progressively higher classifications such as Office Assistants, Officer Supervisors, and Administrative Coordinators.

To maintain full salary differential, the City would need to provide wage increases for full-time employees in AFSCME and CUB that matches the rapid growth in the minimum wage. The following table shows the significant cost impact to the City of providing these wage increases in these two unions:

Impact (\$ millions)	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
AFSCME	\$0.0	\$6.4	\$9.8	\$16.6	\$23.3
CUB	\$0.0	\$9.3	\$14.3	\$24.0	\$33.7
Total	\$0.0	\$15.8	\$24.1	\$40.6	\$57.0

Youth Works: In the summer of 2015 the City's Youth Works program successfully offered 8,000 young people a summer job. Under this program, youths are paid at the minimum wage for a five-week program working 25 hours per week. The program is funded from City and State funds, plus private contributions from businesses, non-profits, foundations, and individuals.

The proposed legislation would set the Youth Works hourly wage at 85% of the City's rate. In Fiscal 2017 and 2018 the State minimum wage would exceed the Youth Works rate, so we assumed Youth Works workers would be paid at the State minimum. But, beginning in Fiscal 2019 the Youth Works minimum wage begins to exceed the State rate:

Minimum Wage	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
State	\$8.75	\$9.25	\$10.10	\$10.30	\$10.50
Youth Works (@ 85%)	\$7.44	\$8.93	\$10.20	\$11.48	\$12.75
Difference	n/a	n/a	\$0.10	\$1.17	\$2.25

To maintain the program at 8,000 youths at the higher minimum wage, additional funds would be needed. Or, alternatively, the existing funds would be spread among fewer youth:

Impact	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
Wage Differential	\$0.00	\$0.00	\$0.10	\$1.17	\$2.25
Add'l Funds Required (\$ millions)	\$0.0	\$0.0	\$0.1	\$1.3	\$2.4
Reduction in Youth Works Slots	0	0	66	712	1,263

Budget Impact Summary: City Council Bill 16-0655 would have a direct and costly impact on the City's finances. By Fiscal 2021 the legislation would cost the City \$65 million annually above baseline, for a total of \$152.6 million over the next five years:

Impact	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Total
Part-Time Employee Costs	\$0.0	\$0.4	\$1.7	\$3.6	\$5.7	\$11.4
Full-Time Employee Pay Compression	\$0.0	\$15.8	\$24.1	\$40.6	\$57.0	\$137.4
Youth Works	\$0.0	\$0.0	\$0.1	\$1.3	\$2.4	\$3.8
Total	\$0.0	\$16.2	\$25.9	\$45.4	\$65.1	\$152.6

Part-time and temporary worker wages would need to increase to comply with the minimum wage with a direct cost of \$5.7 million annually by Fiscal 2021.

In turn, those higher wages would put extraordinary upward pressure on wages for more highly-skilled full-time employees in AFSCME and CUB. To maintain the current spacing in the salary scales between unskilled, skilled, and supervisory workers would cost an additional \$57 million annually above baseline through Fiscal 2021. To put that cost in perspective, an additional \$57 million cost would require the elimination of 877 full-time positions, which represents over 6% of the City's workforce.

Finally, the legislation could have unintended consequences on the successful Youth Works program. Under the terms of the bill, by Fiscal 2021 an additional \$2.4 million will be required annually just to maintain 8,000 summer job slots at the higher minimum wage. An extensive private fund-raising campaign was needed to generate the money to fund 8,000 slots, and counting on more contributions just to maintain those slots is unrealistic. The likely consequence would be a reduction in the number of youths served by the program.

Policy Impact

1. Introduction

Discerning the impact of minimum wage laws is difficult due to the numerous nuances and variables. In general, there is a preponderance of evidence that increases in minimum wages causes disemployment, but the degree to which this happens and the long term versus short term effects are not always clear.

The standard approach by economist in measuring the impact of a minimum wage increase is the through the calculation of the demand elasticity. Demand elasticity measures effects of an action on demand. In the case of minimum wage, the action is an increase in minimum wage and the resulting demand for employment. Elasticities are measured in comparative percentage changes. For example, an X percentage change in wages results in Y percentage change in employment.

The first step in identifying the impact on employment is to calculate the percentage change in the minimum wage.

2. Percentage Change in Minimum Wage

For analysis of the impact of the minimum wage bill, the percentage increase is first calculated for both the Maryland State Minimum wage and the proposed Baltimore City minimum wage. Both components are necessary to understand the total impact on employment.

The State of Maryland minimum wage was set in 2014, when the Maryland General Assembly passed House Bill 295 increasing the minimum wage in the State of Maryland. The minimum wage rate went into effect on January 1, 2015 increasing the minimum wages annually through 2018. The second component is of course the proposed Baltimore City minimum wage. Table 1 shows the percentage increase proposed by the City, the State and the total increase. It is important to look at the minimum wage increase based on the totality of increases and not just the impact of the City to measure the true impact of an increase on employment.

FY	State Law Minimum Wage	Proposed City Minimum Wage	Percentage Annual Increase (City+ State)	Percentage State Annual Increase	Percentage City Annual Increase Above State
2016	\$ 8.75	\$ 8.75			
2017	\$ 9.25	\$ 10.00	14.3%	5.7%	8.6%
2018	\$ 10.10	\$ 10.50	13.5%	9.2%	4.3%
2019	\$ 10.10	\$ 13.50	33.7%	0.0%	33.7%
2020	\$ 10.10	\$ 15.00	48.5%	0.0%	48.5%

3. Youth, Young Adults and Low Skilled Workers Will Lose Jobs

Research has indicated that those impacted the most by a minimum wage increase tend to be youth under 24 years old and low skilled workers. David Neumark, a labor economist for the Federal Reserve, reported elasticities between -0.1 and -0.3 for teens ages 16-19 and between -0.1 and -0.2 for young adults between the ages of 16-24 (2015).

These elasticities tend to be widely supported through hundreds of studies. In a related article, Nuemark and Wascher, concluded “that nearly two-thirds of the more than 100 newer minimum

wage studies, and 85% of the most convincing ones, found consistent evidence of job loss effects on low-skilled workers.”

In 2009, Doucouliagos and Stanley found an elasticity of $-.19$, and then later Liu, Hyclak and Regmi (2015) found that higher minimum wages correlated to fewer jobs for 14-18 year olds. Using two different fixed effects models, they found elasticities of -0.17 and -0.23 as has been commonly found in most other studies.

The overwhelming evidence for effects of a minimum wage increase shows that an elasticity of between -0.1 and -0.3 is to be expected.

Using the Neumark elasticities, one finds that for every 10% increase in minimum wage, teen employment is reduced by 1% to 3%.

4. Skill Levels of Baltimore City

Educational attainment is commonly used as a proxy for employment skill level. Table 2 shows that educational attainment levels for Baltimore City and some select nearby counties. Using educational attainment as a proxy for skill levels, the percentage of unskilled workers in the City is higher than surrounding counties and the US as a whole. With a larger cohort of unskilled workers, it is important that the City do all it can to retain as many unskilled jobs as possible.

Table 2: Skill Level Comparison				
Education Attainment (Skill Level Proxy)	Baltimore City	AA	Baltimore County	US
High school graduate or higher, percent of persons age 25 years+, 2010-2014	80.9%	91.1%	90.2%	86.3%
Bachelor's degree or higher, percent of persons age 25 years+, 2010-2014	27.7%	37.6%	36.0%	29.3%

5. Disemployment

Using generally agreed upon elasticities, an attempt is made to determine the state, City and the combined impact of the various increases in the minimum wage on employment demand. Table 3a shows the estimated employment loss due to the state law that is currently in place. Because the state minimum wage law does not change after 2018, no impact is estimated for 2019 and beyond. By 2018, it is anticipated that the current state law will cost Baltimore City between 529 and 1,559 jobs typically held by youth, and low skilled workers.

Table 3a: Total State Disemployment			
FY	Percentage Disemployment Elasticity = -0.1	Percentage Disemployment Elasticity = -0.2	Percentage Disemployment Elasticity = -0.3
2017	205	409	614
2018	324	640	945
2019	-	-	-
2020	-	-	-
Total	529	1,049	1,559

Table 3b shows the estimated job loss for the proposed City minimum wage law. Minimal job losses are estimated for the first two years as the wage is similar to that of the state, however in years 2019 and 2020, the job losses escalate exponentially as the City wage rate diverges from that of the state. Total job losses attributable just to the proposed City minimum wage bill over the four year period are estimated to range from 3,266 to 8,993.

Table 3b: Total City Disemployment			
FY	Percentage Disemployment Elasticity = -0.1	Percentage Disemployment Elasticity = -0.2	Percentage Disemployment Elasticity = -0.3
2017	307	614	921
2018	153	301	445
2019	1,173	2,280	3,322
2020	1,633	3,064	4,305
Total	3,266	6,259	8,993

Table 3c provides the estimate by year for the combine current state and proposed City minimum wage laws. By 2020, it is estimated that the City will lose between 3,795 and 10,552 jobs depending on the elasticity. **Most studies point to around a -0.2 elasticity, which would result in 7,308 youth, young adult and low skilled jobs being lost in the City.**

Table 3c: Total Projected Disemployment			
FY	Percentage Disemployment Elasticity = -0.1	Percentage Disemployment Elasticity = -0.2	Percentage Disemployment Elasticity = -0.3
2017	512	1,024	1,535
2018	477	941	1,390
2019	1,173	2,280	3,322
2020	1,633	3,064	4,305
Total	3,795	7,308	10,552

6. Estimated Unemployment Rate

The unemployment rate in Baltimore City tends to run higher than both the national average and the State of Maryland average. Table 3 shows the March unemployment rates for Baltimore City and surrounding counties. If this bill were to pass, one could expect the unemployment rates for Baltimore City to increase relative to the current employment levels.

Clemens and Withers (2014) studied the impact of minimum wage increases over the Great Recession and found that the average effective minimum wage rose by 30 percent across the United States. They estimate that these minimum wage increased unemployment by 0.7 percentage point.

Current Baltimore City Unemployment Rate	Current Baltimore County Unemployment Rate	Current Anne Arundel County Unemployment Rate	Current Howard County Unemployment Rate	Current Maryland Unemployment Rate
7.1%	5.0%	4.1%	3.4%	4.8%

A major argument for a minimum wage increase is that for the few lost jobs, the gains that are made for all employees is worth the loss of a few jobs. In the case of this bill however, draconian job losses are likely due to the combination of state law and the exponential increase in minimum wage in 2019 and 2020. In March of 2016, the City unemployment rate was 7.1%. The City has seen this rate drop consistently since the Great Recession high of over 11%. It is expected to continue to come down in the next few years, although it has historically been higher than surrounding counties and the state of Maryland (see Table 3).

Based on the job losses predicted by minimum wage-employment demand elasticities, a new, static unemployment rate has been calculated that reflects the proposed minimum wage law. At a -0.1 elasticity for the effects of the City wage law, with all other factors held constant, it is expected that the City's unemployment rate will climb to 8.2% from 7.1% (see Table 4). This is the best case scenario. The worst case would be the elasticity of -0.3 where the unemployment would climb to 10.1%. These numbers reflect only the job losses from the City bill. If the expected losses from the state are added to the worst case for the City, an unemployment rate of 10.6% should be expected, all other factors held constant.

This would return the City to the unemployment levels of the Great Recession and virtually all of the jobs lost would be youth, young adults and unskilled jobs.

These estimates do not factor in the natural growth of employment, but rather are intended to illustrate the cost associated with minimum wage laws in a zero growth environment.

Table 5: Change in Unemployment Rate Due to City Minimum Wage				
	Mar-16	City-Lo	City-Hi	Total - Hi
March Labor Force	296,496	296,496	296,496	296,496
March Unemployment	20,909	20,909	20,909	20,909
Additional Unemployment	-	3,266	8,993	10,552
Total Unemployment	20,909	24,175	29,902	31,461
Increase in Unemployment Rate	0.0%	1.1%	3.0%	3.6%
Unemployment Rate	7.1%	8.2%	10.1%	10.6%

7. Externalities

Of great concern are the externalities that a higher minimum wage in just the City of Baltimore might create. If Baltimore City raises its minimum wage, a wage differential will be created between the City and surrounding counties. Such a wage differential will encourage job seekers from surrounding counties with lower minimum wage laws to seek positions in the City. This would drive out opportunities for City residents. Census statistics repeatedly show that only one out of three jobs in the City are held by City residents. Increasing the minimum wage in will decrease this ratio further and particularly in the area of youth, young adult and low skill jobs, which the City is in the most need. These job losses are not factored into the number estimated job losses in section 5 above.

8. Timing of a Minimum Wage Increase

Research has consistently pointed out that the best time to raise a minimum wage rate with the fewest negative impacts is when there is a high demand for labor. When the labor market is tight, job losses resulting from a higher minimum wage are readily absorbed into a dynamic, high demand labor market.

Although unemployment has been declining in Baltimore City, it still remains higher than surrounding counties, the State and the national rates. By implementing a higher minimum wage rate at this point in time, the City would either slow the rate of decline of unemployment or more likely increase the unemployment rate.

9. Labor Cost Signaling

Through this bill, the City is signaling or notifying that labor costs in the City will be 48% higher than that required by the State in 2020. Business will utilize this signal to adjust their plans ahead of the time the largest increases take place. This means that the effects of the 2019 and 2020 wage rate increases will begin to be felt immediately as employers adjust to the new “signaled” minimum wage. Current decisions by businesses to hire, locate to the City or out of the City will be made within the context of the 2020 wage rates and not the 2017 wage rate increase. Higher out year costs will result in the acceleration of the negative out year impacts, so that these impacts are felt prior to the time they are scheduled to occur.

10. Alternatives to Minimum Wage

Because minimum wage laws help to create unemployment for those that need jobs the most, alternatives to a minimum wage law can be useful. In fact many of the most common alternatives have been implemented by the federal and state governments. These include:

- An earned income tax credit – This is a reimbursement by the government to make up the difference in the living wage. If the living wage is \$16,000 and a family makes \$12,000, the federal government writes a check, like a tax refund, for \$4,000 to make up difference.
- Health care vouchers
- Food subsidy programs
- No income taxes for people who make less than a certain income.

The likely result of such a drastic minimum wage increase would be to shift much of the cost borne by the federal government, through the earned income tax credit and other federal and state subsidies, to local businesses as workers lose eligibility for these programs.

11. Formula Driven Minimum Wage after 2020

The legislation has built-in an escalation clause for the minimum wage rate after 2020. The minimum wage will increase by the Consumer Price Index. The average Consumer Price Index increase for the last 10 years is approximately 1.5%. Using an elasticity of -0.2%, it would be expected that the formula would decrease employment annually by about 100 jobs, assuming a static employment environment.

12. Wage Compression

As the minimum wage increases, there will be pressure to increase wages that currently above minimum wage to avoid wage compression. As wages increase throughout the wage structure, there will be an additional negative impact on employment. It needs to be noted that the unemployment numbers in this analysis only apply to persons making less than \$25,000. A higher minimum wages will negatively impact employment over the \$25,000 wage level as well, although not to the same degree as those workers making less than \$25,000.

Fiscal Impact: Income Tax Estimates

An increase in the minimum wage will increase aggregate wages in the City of Baltimore and hence increase revenue to the City coffers. The increase is a combination of increases due to higher wages and a reduction in the number of jobs due to reduced demand for labor.

Table 6 shows estimates for the net increase in revenue from the increase in minimum wage

holding all other factors constant. A per return average wage of \$328 is multiplied by the expected number of returns for each year. Annual tax returns are reduced by disemployment while the average wage is increased by the percentage increase of the minimum wage. The analysis income strata is limited to less than \$25,000 adjusted gross income for Maryland taxpayers. An elasticity of -0.2 (for every 10% increase in minimum wage, there will be a corresponding disemployment of 1%) is utilized to approximate the average value of the various studies examined.

The results show that additional income tax in the amount of \$1,293,798 will be collected in FY 2017 with \$12,326,034 additional tax being collected in 2020.

FY	Percentage Wage Increase	Number of Tax Returns	Disemployment Estimate (Job Loss)	Local Tax Amount	Average Tax Return	Additional Income Tax
2016		35,824		\$ 11,740,000	\$ 328	
2017	14.29%	34,800	1,024	\$ 13,033,796	\$ 375	\$ 1,293,796
2018	13.51%	33,860	941	\$ 14,395,252	\$ 425	\$ 2,655,252
2019	33.66%	31,580	2,280	\$ 17,945,732	\$ 568	\$ 6,205,732
2020	48.51%	28,516	3,064	\$ 24,066,034	\$ 844	\$ 12,326,034
Total			7,308			\$ 22,480,814

cc: Henry Raymond
Angela Gibson

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