



MINIMUM WAGE INCREASE: COSTS, BENEFITS AND RECOMMENDATIONS



A. MINIMUM WAGE FACTS

Federal

- The current federal minimum wage is \$7.25 per hour, effective since July 24, 2009.

New York State

- Beginning December 31, 2013, New York State's minimum wage increased in a series of three annual changes pursuant to legislation signed in 2013:
 - \$8.00 on 12/31/13.
 - \$8.75 on 12/31/14.
 - \$9.00 on 12/31/15.
- On May 7, 2015, Governor Cuomo instructed Acting State Labor Commissioner Mario Musolino to empanel a Wage Board to investigate and make recommendations on an increase in the minimum wage in the fast food industry to \$15 an hour.
 - Phased in to take effect by December 31, 2018 in New York City and by July 1, 2021 for the rest of the state, the Wage Board approved the minimum wage in July, 2015.
- Governor Cuomo is now proposing a phased-in \$15 minimum wage for all state workers via an Executive Order, and a phased-in \$15 minimum wage for all other workers, which presumably requires legislative approval.

B. ECONOMIC IMPACTS ON LONG ISLAND'S PRIVATE SECTOR

Assuming a gradual increase in the minimum wage over 6 years—from \$8.75 at present to \$10 in 2016 and then \$1 per year thereafter until reaching \$15, the following impacts would be felt:

- Total increase in Long Island worker earnings: \$3.305 billion (see Appendix for modeling).
- Total increase in Long Island economic activity: \$2.962 billion. This growth increases over time:

2016	\$18.9 million
2017	\$121.9 million
2018	\$291.5 million
2019	\$528.0 million
2020	\$825.1 million
2021	\$1,176.9 million
- Total loss to LI businesses: \$342 million. These losses are initially modest but increase over time:

2016	\$2.2 million
2017	\$14.1 million
2018	\$33.7 million
2019	\$61.0 million
2020	\$95.4 million
2021	\$136.0 million
- Total Long Island jobs lost: 23,380.¹

¹ Every time the wage is increased, labor demand declines because the demand for labor is a decreasing function of the wage. The responsiveness of labor demand to wage hikes is 0.3—that is, a 10% increase in the wage reduces labor demand (i.e. jobs) by 3%. Also, while raising the wage leads to jobs loss, it could also reduce welfare and disability rolls.

Certain Industries Hurt More Than Others

In addition, some industries would be impacted more than others.

- Farmers raise commodity crops and are price takers for their product, so if the minimum wage is raised they will have to absorb the cost entirely and not be able to pass it along. Additionally, since Long Island farmers are in competition with surrounding states, it may set an unfair market since NJ, Pennsylvania, and Connecticut will be able to pay their workers less.
- Moreover, small businesses and companies producing goods, retailers and restaurants are disadvantaged especially those adjacent to nearby states. Also, the costs of raising the minimum wage do not include demands to raise the wage of other employees who are currently over \$15 an hour in the name of 'fairness'.
- Finally, the not-for-profit sector, which makes up approximately 17% of the Long Island workforce and which is already facing reduced or flat levels of government aid, would be impacted by a wage increase and may be forced to downsize or cut back services they provide.

C. ECONOMIC IMPACT ON LONG ISLAND'S PUBLIC SECTOR

Long Island municipalities will eventually have to pay \$54,366,765 more in salaries if the minimum wage is increased to \$15 hour², which mean commercial and residential property tax payers may have to pay more than \$54 million in new property taxes to pay for higher salaries of municipal employees.

Estimated Costs to Long Island Municipalities of Raising Minimum Wage to \$15.00 Per Hour				
Approximate Number of Employees Earning \$8.75- \$14.75 Per Hour	Current Annual Cost in Salaries	Proposed Annual Cost in Salaries	Proposed Annual Cost in Salaries Minus Jobs Lost*	Proposed Change in Annual Cost of Salaries
16,551	\$278,927,790	\$339,005,970	\$333,294,555	\$54,366,765
* Assumes job decline by 2.1% adjusted for approximate hours and weeks worked.				
Source: Long Island Association Research Institute; U.S. Census Bureau, Public Use Micro Data, 2011-2013. Includes full-time and part-time workers.				

- Significant increases in the minimum wage and/or an immediate jump to \$15 an hour could jeopardize the successful property tax cap. The State Association of School Business Officials contends that a \$15 minimum wage would force most school districts to hike property taxes an average of 2.6 percent. Thus, most school districts on Long Island may be forced to pierce the tax cap. The Counties of Suffolk and Nassau may likely have to pierce the tax cap as well.
- Thus, incremental adjustments to the minimum wage would be necessary to avoid unintended consequences to the property tax cap and cuts to municipal services or programs.

² These numbers do not include an assessment of civil service rules and other employment practices that might result in higher pay scale for non-minimum wage workers.

D. RECOMMENDATIONS TO AMELIORATE INCREASES IN MINIMUM WAGE

Avoiding undue burdens on the business community and unfunded mandates to local governments that may force them to pierce the property tax cap are worthy goals. Thus, the following options should be considered:

- Increases to minimum wage should be conditioned on permitting affected business owners to deduct the total increased labor cost, including all payroll taxes, from their state tax bill.
- Small employers- those with annual gross revenue below \$500,000- should be permitted to pay workers less than proposed minimum wage, or be subject to a tax credit for each dollar in additional wages they are forced to pay.
- Revise the current Minimum Wage Reimbursement Credit that currently only applies to students paid the minimum wage, ages 16-19 years old. The age limit should be raised to 29 and the student requirement should be waived. In addition, scheduled increases required by contract should not affect a business' ability to take the credit.
- Permit the 'carryback' of net operating losses ('NOL's') in New York State which would make it consistent with the Federal Tax Code to recoup any operating losses the proposed minimum wage hike causes to businesses. New York State currently only allows the 'carry forward' of NOL's.
- Reduce workers compensation costs to employers to offset wage increases. Specifically, require more evidence of disability and a lower cap on scheduled 'loss of use' awards, and require the benefit and timeline to start on the 'date of injury'.
- Increase state aid to municipalities and not-for-profit organizations to offset higher labor costs caused by minimum wage increases.

CONCLUSION

There are both economic benefits and economic costs with increasing the minimum wage to \$15/hr. As with most policy matters, there will be those who benefit, and those who will bear the burden of any changes to existing policy. To offset the costs to businesses, the recommendations described above should be considered.

ACTION

The Long Island Association Board of Directors will discuss the pros and cons of raising the minimum wage and these tax recommendations at their December Board Meeting.

APPENDIX

Spreadsheet Analysis of Economic Impact of Raising Minimum Wage On LI to \$15/hr by 2021- eg Phased in over 6 Years

VARIABLE	VALUE		SOURCE
Discount rate	1.03		Standard assumption
Current minimum wage	8.75		NY State department of Labor
Min wage 2016	10		Assumption
Min wage 2017	11		Assumption
Min wage 2018	12		Assumption
Min wage 2019	13		Assumption
Min wage 2020	14		Assumption
Min wage 2021	15		Assumption
Total workers LI	1314500		NY State Department of Labor
Pct workers earning less than \$15/hr	0.22		http://www.newrepublic.com/article/116183/minimum-wage-state-america-map
Workers earning less than \$15/hr	289190		Calculation
Workers earning 8.75-10	48198.33		Calculation
Workers earning 10--11	48198.33		Calculation
Workers earning 11-12	48198.33		Calculation
Workers earning 12-13	48198.33		Calculation
Workers earning 13-14	48198.33		Calculation
Workers earning 14-15	48198.33		Calculation
Wage bill <15/hr workers in 2015	6928.51	(in millions)	Calculation
Wage bill <15 /hr workers in 2016	6988.758	(in millions)	Calculation
Wage bill < 15/hr workers in 2017	7133.353	(in millions)	Calculation
Wage bill <15/hr workers in 2018	7374.345	(in millions)	Calculation
Wage bill <15/hr workers in 2019	7711.733	(in millions)	Calculation
Wage bill <15/hr workers in 2020	8145.518	(in millions)	Calculation
Wage bill < 15/hr workers in 2021	8675.7	(in millions)	Calculation
Demand adj wage bill 2016	6950.2	(in millions)	Calculation
Demand adj wage bill 2017	7072.761	(in millions)	Calculation
Demand adj wage bill 2018	7283.816	(in millions)	Calculation
Demand adj wage bill 2019	7378.895	(in millions)	Calculation
Demand adj wage bill 2020	7745.651	(in millions)	Calculation
Demand adj wage bill 2021	7867.962	(in millions)	Calculation
Present value of earnings increase	3304.549	(in millions)	Calculation

Jobs lost by year initial \$8.75/hr cohort (in millions) Calculation	
2016	1927.933
2017	1322.011
2018	1156.76
2019	1050.999
2020	949.7918
2021	864.638
total	7272.134

Jobs lost by year initial \$10/hr cohort (in millions) Calculation	
2017	1377.095
2018	1221.424
2019	1094.396
2020	989.0093
2021	900.3395
total	5582.263

Jobs lost by year initial \$11/hr cohort (in millions) Calculation	
2018	1257.348
2019	1126.584
2020	1018.098
2021	926.8201
total	4328.849

Jobs lost by year initial \$12/hr cohort (in millions) Calculation	
2019	1156.76
2020	1045.368
2021	951.6456
total	3153.774

Jobs lost per year initial \$13/hr cohort (in millions) Calculation	
2020	1071.074
2021	975.0467
total	2046.121

Jobs lost per year initial \$14/hr cohort (in millions) Calculation	
2021	997.2069
total	997.2069
Grand Total Jobs Lost	23380.3479

Price elasticity of demand for labor	0.3	http://2012books.lardbucket.org/books/theory-and-applications-of-economics/s15-05-empirical-evidence-on-minimum-.html see also http://repec.iza.org/dp7958.pdf
Marginal propensity to consume	0.83	https://www.imf.org/external/pubs/ft/wp/2010/wp10264.pdf
Percent of purchases on Long Island	0.8	https://ycharts.com/indicators/ecommerce_sales_as_percent_retail_sales_(assumed_10%_internet_sales_and_10%_other_off_Long_Island_purchases)
Multiplier effect	1.35	RIMS II multiplier

Total increase in economic activity Long Island	2962.198	(millions)	Calculation
Workers gain	3304.549	(millions)	Calculation
LI Businesses lose	-342.351	(millions)	Calculation
Total Jobs lost	23380.35		Calculation



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