EXECUTIVE SUMMARY

IMPACTS OF THE $9.50 LIVING WAGE ON THE ECONOMY OF SANTA FE PART 1

This is the preliminary analysis of data relating to the impacts of the $9.50 minimum wage mandated by the Living Wage Ordinance on Santa Fe workers, businesses and the Santa Fe economy. The report presents BBER's analysis after analyzing a variety of secondary data sources and after investigating several concerns about unintended impacts.

BBER examined the latest data available from a number of secondary sources in an effort to describe the impacts of the living wage, specifically the $9.50 living wage which went into effect on January 1, 2006. The evidence from the secondary data presented is not definitive, but certainly indicates that the Santa Fe economy has generally been performing very well and, indeed, possibly better than the state as a whole. Admittedly harder to answer from secondary sources is the question of whether the living wage has helped alleviate poverty

According to the Current Employment Survey (CES) nonfarm employment series, Santa Fe MSA employment growth (year-over-year), which had been in the 2 to 3% range, slowed during the final three quarters of 2006 to under 1% and then re-accelerated during the first two quarters of 2007, with growth of 2.3% in the first quarter and 2.1% in the second. Private sector employment growth was an impressive 2.9% in the first quarter and 2.7% in the second.

BBER undertook a more detailed analysis of Santa Fe County employment growth based on actual reported employment in the *Quarterly Census of Employment and Wages (QCEW)*. The data, which are through the fourth quarter of 2006, will be used in re-benchmarking the nonfarm series next February. According to the QCEW, private sector employment growth averaged 1.7% in 2006. Growth fell below 1% in the second quarter then reaccelerated to 1.2% in the third quarter and 2.2% in the fourth. Over the year, the private sector had net job creation of 740 jobs, with the largest gains in construction (327), real estate (221), retail (217), accommodations and food service (158) and information (142). Major job losses were in administrative and waste service (135), manufacturing (95) and health care and social assistance (80). The performance of the different sectors in Santa Fe was frequently at variance with their performance for the state as a whole. The $9.50 wage may well have been a factor in some individual business decisions, but other factors were also at play.

While there are exceptions, average weekly wages in the private sector generally show year-over-year increases in every quarter.

Santa Fe's unemployment rate has fallen since the $8.50 minimum wage went into effect in 2004 and also since the $9.50 wage went into effect in 2006. The Santa Fe unemployment rate has historically been below that for New Mexico and the other MSAs and this relationship continues. All areas have seen continued declines in their unemployment rates since mid 2004. Rates elsewhere have fallen somewhat more rapidly, but this may simply reflect the difficulties of pushing a low rate down further.

With respect to public assistance programs, caseloads for both TANF and General Assistance, which generally had declined faster/grown more slowly in Santa Fe County than the state after the implementation of the $8.50 minimum wage, increased after the $9.50 wage went into effect. Medicaid eligibles in the County have grown as roughly the same rate as the state, although after January 2006, the rate of growth slightly exceeded the state until recently. As was true in first few months following implementation of the $8.50 minimum wage, food stamp caseloads increased faster in Santa Fe County than statewide after January 2006. However, a year later, the growth was below the state.

With some important exceptions that appear to be unrelated, since the initial implementation of the Living Wage Ordinance, the City's taxable gross receipts have risen in each quarter year-over-year. The recent strong performances of taxable receipts from retail trade, from professional and technical services, and from construction are worth noting, although many receipts, particularly in the service industries, continue to be classified as "other services" and receipts in this category have been shrinking gradually. The recent poor performance of receipts from accommodations and food services is also worth mentioning, although puzzling in light of other data. When compared with taxable gross receipts from the rest of the county or from the "remainder", the City seems to be holding its own. The data have not been adjusted to remove possible impacts of the annexation of lands near the airport, but from the figures provided by the City, these impacts should be relatively insignificant to date.

Construction activity within the City limits, both residential and non-residential, has been very strong. This strength over the past year and a half is in contrast to what has been seen in other areas, although nationwide business investment in structures was quite strong in 2006 and during the first half of 2007. The housing market in Santa Fe has also held up very well despite a national slump. Overall from this data, we can detect no disinclination to invest in Santa Fe because of the living wage.

In terms of the hospitality industry, growth in revenues from the City's 4% lodgers tax has been relatively strong year over year since the first quarter of 2006. Data from the *Rocky Mountain Lodging Report* shows room rates rising downtown and along Cerrillos Road. Occupancy rates, which were on a slide from the mid-1990's forward, rose in 2004 but have fallen a bit since then. The survey is a voluntary survey, so coverage and consistency are always at issue. The data are also difficult to interpret without having historical figures on the total number of rooms available for rent. BBER has been as yet unsuccessful in efforts to obtain such data.

According to BBER's cost of living study, the cost of living increased at an annual rate of 7.8% between July 2003 and November 2005, and at a 6.4% rate since then. Transportation (i.e., gasoline), housing and groceries pulled up the index in the first period, while health care, miscellaneous goods and services and housing (again) were the major contributors to inflation in the second period. Due to differences in methodology and in weighting, the overall rates of price increase are somewhat higher than in the cost of living indices produced by the Bureau of Labor and Statistics and the Bureau of Economic Analysis. Nonetheless prices in Santa Fe did increase somewhat faster in both periods than did national average: the Santa Fe index went from 114% of the national average in 2003 to 116% in 2005 to 118% in 2007.

For the statistical analysis of $9.50 wage on employment, this report builds on the methodology used in the previous (2006) report on the impacts of the $8.50 living wage with one notable improvement: we had access to the latitude and longitude of businesses, and so were able to determine precisely where each business is located. This geographic information provides a much more complete population of businesses for the City, and allowed us with confidence to compare businesses within the City limits with those operating from locations in Santa Fe County outside the City boundaries. Using this new accuracy in pin-pointing business location, we also returned to the $8.50 living wage so that measures are comparable between the $8.50 and $9.50 living wage. Results for the $8.50 living wage are consistent with results from the previous study.

In terms of the statistical analysis, there is little in the overall results that suggest any impact of the $9.50 living wage. Comparisons of large Santa Fe City businesses with large businesses in Santa Fe County and in Albuquerque yield no significant difference overall or by industry. Comparing large to small businesses, significant differences are only found in Santa Fe County and Albuquerque, our two control regions where the living wage does not play a direct role. All of this further supports conclusions arrived at in the original analysis of the $8.50 living wage that any employment changes are symptomatic of other factors, but that the living wage is not a significant factor in determining whether a company hires or fires employees.

Finally, with respect to unforeseen consequences, the increased minimum wage has had a major impact on organizations providing vocational services to people with disabilities. BBER had conducted lengthy interview with three of these organizations in 2005. Follow-up interviews were conducted for this report. Just as the $8.50 minimum wage made it more difficult for them to place people with disabilities in jobs, and had a negative impact on business operations, these organizations report that the $9.50 minimum wage had increased these difficulties. Two of the organization, both Santa Fe-based non-profits, said the implementation of the living wage created a situation which required the reduction and elimination of program offerings. Despite eliminating these programs, both organizations reported success in placing clients with other organizations offering the same services. Neither organization said services in Santa Fe had declined overall, but did note that the number of organizations providing these services had decreased. One interviewee said the living wage had been effective in “weeding out poorly managed” non-profits.

All three organizations have found continuing difficulty in placing people with disabilities in the workforce. One organization closed up shop earlier this year and no longer provides vocational training. The two organizations still providing services in this area said they have turned to smaller businesses that aren’t required to pay the living wage to place their trainees. One issue that has made placement difficult since the implementation of the living wage is employers demand for workers that can multi-task.

In response to the concern that the living wage means reduced employment opportunities for young people, BBER staff analyzed data from the US Census Bureau on younger workers in the City of Santa Fe. A review of the data quarter-by-quarter since the wage was implemented indicates that youth employment has continued to increase in all age cohorts – those 14-18, those 19-21 and those 22-24.

BBER staff were again unable to substantiate concerns that the living wage provides a powerful incentive for students to drop-out of school. The data on drop-outs and why they leave school are simply not good enough.

Other unintended consequences will be explored in both the both survey and in the focus groups.