Department of Legislative Services

Maryland General Assembly
2014 Session

FISCAL AND POLICY NOTE

House Bill 187 (Delegate Braveboy, *et al.*)
Economic Matters

Labor and Employment - Maryland Wage and Hour Law - Payment of Wages

---

This bill requires employers in the State, as of July 1, 2014, to pay the greater of the federal minimum wage or a State minimum wage of $8.20 per hour to employees subject to federal or State minimum wage requirements. The bill provides for subsequent annual increases in the State's minimum wage.

The bill also expands the application of the Maryland Wage and Hour Law to additional industries or classes of workers, changes overtime laws for various industries, alters the tip credit that employers can apply against the direct wages paid to tipped employees, and provides for liquidated damages to be awarded under specified circumstances.

The bill takes effect June 1, 2014.

Fiscal Summary

State Effect: State expenditures (all funds) increase by a total of at least $3.6 million in FY 2015 due to additional staffing needs at the Department of Labor, Licensing, and Regulation (DLLR) and additional payroll costs for certain employees under the University System of Maryland (USM) and the Maryland Department of Aging (MDoA). Out-year expenditures reflect inflation and employee turnover, elimination of contractual employees, as well as continued increases in the minimum wage. Federal fund revenues increase minimally to offset increased wages paid to senior citizen aides employed by MDoA. General fund revenues may increase minimally due to additional fines assessed against violators of the State's Wage and Hour Law. Any increase in general fund tax revenues to the State cannot be reliably projected but is expected to be minimal.

($ in millions)	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
FF Revenue	$.15	$.30	$.44	$.45	$.47
GF Expenditure	$.50	$.47	$.49	$.45	$.47
FF Expenditure	$.15	$.30	$.44	$.45	$.47
Higher Ed Exp.	$2.93	$7.24	$12.56	$12.89	$13.22
Net Effect	($3.43)	($7.71)	($13.06)	($13.33)	($13.69)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government expenditures increase significantly for certain local jurisdictions to pay additional wages to minimum wage government employees. Any increase in local government tax revenues cannot be reliably projected but is expected to be minimal. **This bill may impose a mandate on a unit of local government.**

Small Business Effect: Meaningful.

Analysis

Bill Summary:

Minimum Wage Adjustment

The bill specifies that, unless the federal minimum wage is set at a higher rate, the minimum wage of the State is $8.20 per hour effective July 1, 2014. As of July 1, 2015, the State minimum wage is increased to the greater of the federal minimum wage or $9.15 per hour, and, as of July 1, 2016, the State minimum wage will be the greater of the federal minimum wage or $10.10 per hour.

In subsequent years, the State minimum wage must be adjusted by the Commissioner of Labor and Industry according to the Consumer Price Index (CPI) for the Washington-Baltimore Metropolitan area, or a successor index that is published by the federal Bureau of Labor Statistics. The commissioner must publish the State minimum wage rate in the *Maryland Register* by April 1. If the federal minimum wage increases by an amount greater than the amount calculated using the above method, then the increase in CPI is applied to the higher federal rate, not the State minimum wage that is currently in effect. The State minimum wage, therefore, becomes the higher federal rate adjusted upward for inflation. If the CPI does not change during a given year, or decreases, the minimum wage remains at the same rate as that of the prior year. An increase in the State minimum wage must be rounded up to the nearest five cents.

Expanded Applicability of the Maryland Wage and Hour Law

The bill specifies that the State's Wage and Hour Law applies to additional industries or classes of workers, including individuals who are (1) age 62 or older and work 25 hours or less per week; (2) employed in a motion picture or drive-in theatre; (3) employed by an employer who is engaged in canning, freezing, packing, or first processing of perishable or seasonal fresh fruits, vegetables, poultry, or seafood; or (4) employed at a cafe, drive-in, drugstore, restaurant, or tavern that sells food and drink for on-site consumption and has a gross annual income of $250,000 or less. The bill subjects these employees to the provisions of the Wage and Hour Law, including minimum wage and overtime requirements.

Changes to Provisions Related to the Payment of Overtime

Under the bill, agricultural workers who are exempt from overtime provisions under the federal Fair Labor Standards Act (FLSA) may earn overtime pay for each hour over 48 hours that an employee works during one week; currently these individuals must work 60 hours per week before overtime compensation is required.

The bill specifies that employees of an institution designed to provide care for the elderly or intellectually, mentally, or physically disabled earn overtime pay after working 40, instead of 48, hours in one week.

Finally, the bill repeals the provision that exempts certain employers from overtime requirements, including hotels; motels; restaurants; gas stations; private country clubs; and certain not-for-profit entities that provide temporary at-home care to aged or sick individuals, the disabled, or individuals with a mental disorder. Taxicab operators must also receive overtime compensation under the bill.

Reduction of the Tip Credit

Under the bill, an employer who employs a worker who receives tips may claim a 30% tip credit. Thus, under the bill an employer must pay a tipped employee an hourly wage of 70% of the minimum wage or, as of July 1, 2014, about $5.74 per hour.

Penalties

If an employer pays less than the wages required, the employee may bring an action against the employer to recover (1) the difference between the wage paid to the employee and the wage required; (2) an additional amount equal to twice the difference as liquidated damages; and (3) legal fees. The court *must* award these difference in wages, damages, and counsel fees if the court determines that an employee is entitled to recovery.

Current Law: The Maryland Wage and Hour Law is the State complement to the federal FLSA of 1938. State law sets minimum wage standards to provide a maintenance level consistent with the needs of the population. State law specifies that an employee must be paid the greater of the federal minimum wage, which is currently $7.25 per hour, or $6.15 per hour. The State and local governments are considered employers under the Wage and Hour Law.

The Maryland Wage and Hour Law, and minimum wage requirements, do not apply to certain categories of employees, including those defined as administrative, executive, or professional; certain seasonal employees; part-time employees younger than age 16 or older than age 61; salesmen and those who work on commission; an employer's immediate family; movie theater employees; employees training in a special education program in a public school; employees of an establishment that sells food and drink for on-premises consumption; employees employed by an employer who is engaged in canning, freezing, packing, or first processing of perishable or seasonal fresh fruits, vegetables, poultry, or seafood; and certain farm workers. Exceptions to the minimum wage requirement also exist for training wages and disabled employees of a sheltered workshop.

Employers are required to pay an overtime wage of at least 1.5 times the usual hourly wage. This requirement does not apply to an employer that is subject to federal rail laws; a hotel or motel; a restaurant; a gasoline service station; a bona fide private country club; a nonprofit entity primarily engaged in providing temporary at-home care services; a nonprofit concert promoter, legitimate theater, music festival, music pavilion, or theatrical show; or specified amusement or recreational establishments. It also does not apply to an employee for whom the U.S. Secretary of Transportation sets qualifications and maximum hours of service under federal law; a mechanic, parts person, or salesperson, under certain conditions; drivers employed by a taxicab operator; or specified air carrier employees under certain conditions. An employer has to compute the wage for overtime on the basis of each hour over 40 hours that an employee works during one work week. Specific exemptions apply for farm work, bowling establishments, and infirmaries.

The employer of a tipped employee is allowed a tip credit that can be applied against the direct wages paid by the employer. The employee can be paid tipping wages so long as the wages plus the tips received equal at least the minimum wage, the employee retains all tips, and the employee customarily receives more than $30 a month in tips. The tip credit is currently 50% of the minimum wage or about $3.63 per hour.

If an employer pays less than the wages required, the employee may bring an action against the employer to recover the difference between the wage paid to the employee and the wage required. The court *may* award to an employee legal fees if the court determines that an employee is entitled to recovery.

A person who violates the State's Wage and Hour Law is guilty of a misdemeanor and on conviction is subject to a fine of up to $1,000.

Fair Labor Standards Act

With some exceptions, similar to State law, FLSA requires that a worker be paid a minimum hourly wage and that overtime compensation be paid to employees who work more than 40 hours in a week. There are two ways in which an employee can be covered by FLSA: "enterprise coverage" and "individual coverage."

Enterprise Coverage: Employees who work for certain businesses or organizations are covered by FLSA. These enterprises, which must have at least two employees, are (1) those that have an annual dollar volume of sales or business done of at least $500,000 or (2) hospitals, businesses that provide medical or nursing care, schools and preschools, and government agencies.

Individual Coverage: Even where there is no enterprise coverage, employees may be covered by FLSA if their work regularly involves them in interstate commerce. FLSA covers individual workers who are engaged in commerce or in the production of goods for commerce. Examples of employees who are involved in interstate commerce include those who (1) produce goods that will be sent out of state; (2) regularly make telephone calls to persons located in other states; (3) handle records of interstate transactions; (4) travel to other states for work; or (5) perform janitorial work where goods are produced for shipment to another state. Also, domestic service workers (*i.e.*, housekeepers, full-time baby sitters, and cooks) are normally covered by FLSA. However, many agricultural workers are not subject to FLSA minimum wage and overtime standards.

Background: As shown in **Exhibit 1**, 21 states and the District of Columbia mandate a minimum wage higher than the federal minimum wage of $7.25 per hour. Five states have no mandated minimum wage, another four have a minimum wage set lower than the federal minimum wage, and the remaining states, like Maryland, use the federal minimum wage. Unless a state has a higher minimum wage rate, the federal minimum wage rate applies.

Federal Minimum Wage

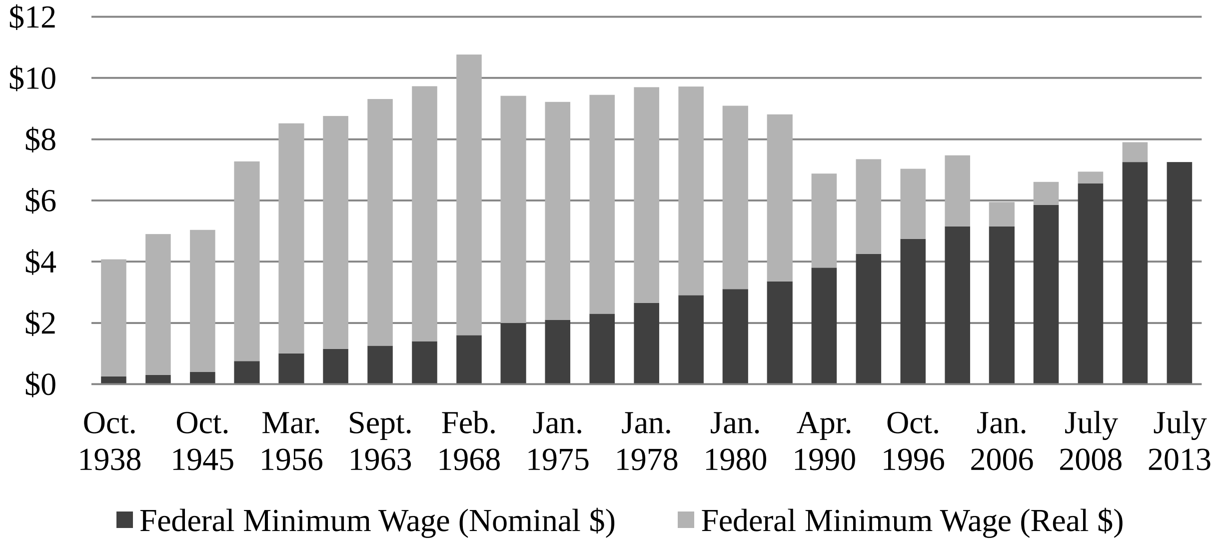
The federal minimum wage first established in 1938 has been incrementally increased and expanded to cover additional employees through subsequent amendments to FLSA. The last increase in the federal minimum wage was in July 2009. Recently, bills have been introduced in the U.S. Congress proposing to gradually increase the minimum wage to $10.10 an hour and then index the minimum wage to the CPI, but none has been enacted. **Exhibit 2** shows the nominal and real values for each time the minimum wage was changed, expressed in terms of July 2013 dollars. The real value reflects the purchasing power of the minimum wage, taking inflation into consideration. When Maryland established a minimum wage rate of $6.15 in January 2006, the real value of the minimum wage then was $7.46, in 2013 dollars.

Exhibit 1
States with Higher than Federal Minimum Wage, 2014

State	Rate	Increases and Indexation
Washington	$9.32	Increases annually based on inflation
Oregon	$9.10	Increases annually based on inflation
Vermont	$8.73	Increases annually by 5% or the percentage increase of the CPI
Connecticut	$8.70	Automatically increases to 0.5% above federal minimum wage if the federal rate equals or becomes higher than the state minimum
District of Columbia	$8.25	Automatically increases to $1.00 above federal rate if the federal rate equals or becomes higher than the district minimum
Illinois	$8.25	
Nevada	$8.25	Increases annually based on inflation
New Jersey	$8.25	Increases annually based on inflation
California	$8.00	Phasing up to $10.00 by January 2016
Colorado	$8.00	Increases annually based on inflation
Massachusetts	$8.00	Automatically increases to $0.10 above federal rate if the federal rate equals or becomes higher than the state minimum
New York	$8.00	Phasing up to $9.00 by January 2016
Rhode Island	$8.00	
Ohio	$7.95	Increases annually based on inflation
Florida	$7.93	Increases annually based on cost-of-living formula
Arizona	$7.90	Increases annually based on cost-of-living formula
Montana	$7.90	Increases or decreases annually based on inflation
Alaska	$7.75	
Maine	$7.50	
Missouri	$7.50	Increases or decreases annually based on cost-of-living formula
New Mexico	$7.50	
Michigan	$7.40	

Source: U.S. Department of Labor; National Conference of State Legislatures

Exhibit 2
Federal Minimum Wage in Real and Nominal Dollars
1938-2013



Source: Congressional Research Service

Local Jurisdiction Labor Laws

Charter counties have the authority to establish a local minimum wage rate under the Express Powers Act. Currently, 10 counties exercise charter home rule: Anne Arundel, Baltimore, Cecil, Dorchester, Harford, Howard, Montgomery, Prince George's, Talbot, and Wicomico, with Frederick County changing to charter home rule on December 1, 2014. Additionally, Baltimore City has police power, so it can establish and enforce a local minimum wage rate. Counties that exercise commission or code home rule have not been delegated the police power that charter counties and Baltimore City have, so they lack the legal authority to establish a local minimum wage.

Montgomery County and Prince George's County passed local minimum wage laws in 2013, Montgomery County Bill 27-13 and Prince George's County Bill CB-94-2013. Both bills phase in minimum wage increases over four years. The bills increase the minimum wage to $8.40 per hour beginning October 1, 2014; $9.55 per hour beginning October 1, 2015; $10.75 per hour beginning October 1, 2016; and $11.50 per hour beginning October 1, 2017. The county minimum wage for Montgomery and Prince George's counties do not apply to an employee who is exempt from the minimum wage requirements of the Maryland Wage and Hour Law or the federal FLSA or to an employee who is younger than age 19 and is employed no more than 20 hours in a week.

Baltimore City enacted a city minimum wage rate in 1964, which was challenged in the State Court of Appeals in *Mayor of Baltimore v. Sitnick*, 254 Md. 303, 255 A.2d 376 (1969). The court found that the State's minimum wage rate did not preempt Baltimore's minimum wage law since Baltimore's law supplemented the State law by setting a higher rate. Baltimore still has its own minimum wage statute, but it currently sets the minimum wage rate at the federal rate.

Characteristics of Minimum Wage Workers

The U.S. Bureau of Labor Statistics (BLS) and the U.S. Census Bureau conduct the Current Population Survey (CPS), which includes tabulating characteristics on minimum wage earners. In 2012, 3.6 million workers nationwide were paid wages at or below the minimum wage, representing 4.7% of all hourly paid workers.

According to CPS, minimum wage workers tend to be young. About half of all workers earning minimum wage or less were younger than 25, and about 21% of teenagers earning hourly wages were paid the minimum wage or less. Among hourly wage workers without a high school diploma, approximately 10% earned the federal minimum wage or less. About 11% of part-time workers earning an hourly wage were paid the federal minimum wage or less, compared with about 2% of full-time workers.

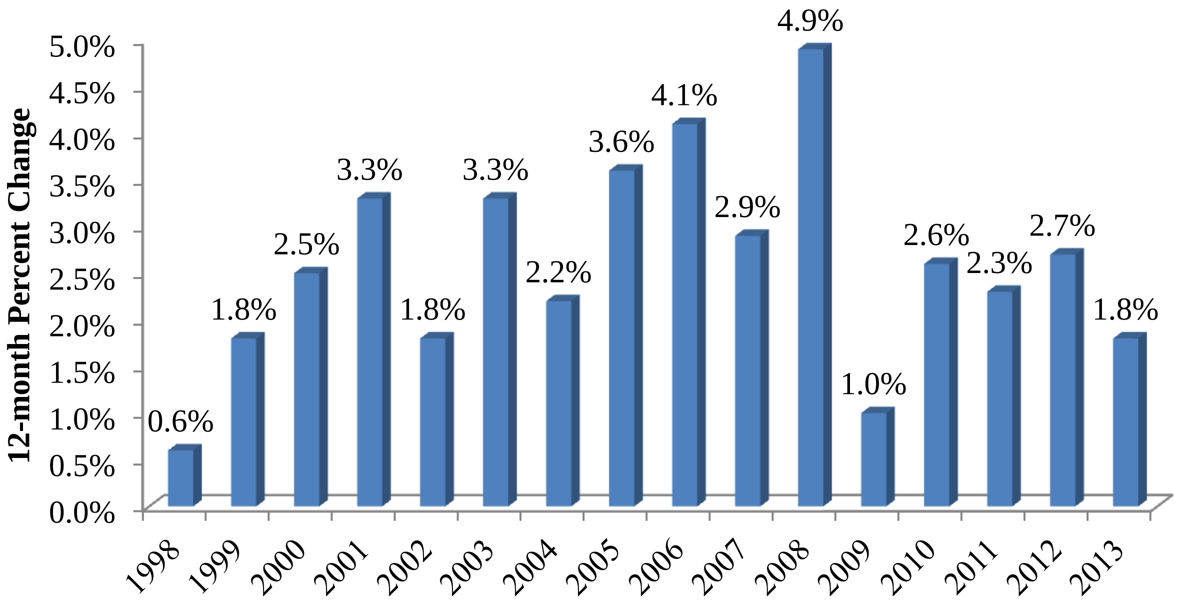
BLS reports 67,000 workers in Maryland earned wages equal to or less than the federal minimum wage in 2012. Of those earning minimum wage or less, 61% were women. In the last decade, the percent of workers in Maryland earning at or below federal minimum wage has increased from 2.1% in 2003 to 5% in 2012, while, over the same time, median hourly earnings overall have risen from $12.08 to $14.17.

Consumer Price Index

Beginning in fiscal 2018, the bill requires the minimum wage to be adjusted based on the rate of inflation as determined by the CPI for all urban consumers for the Washington-Baltimore metropolitan area's most recent 12-month period for which data is available on March 1. This information is available on a nonseasonally adjusted basis. BLS, the publisher of the CPI, advises that CPI data for January is released in mid- to late-February, so the commissioner will likely rely on the January CPI statistics to adjust the minimum wage.

Exhibit 3 shows the CPI growth since January 1998. Over the last 16 years, the average 12-month percent change for the CPI has been 2.6%. Growth has been as high as 4.9% in 2008 and as low as 0.6% in 1998.

Exhibit 3
Washington-Baltimore Metropolitan Area Consumer Price Index Change
1998-2013



Source: U.S. Bureau of Labor Statistics

Minimum Wage Effects on the Economy

There is much debate on how raising the minimum wage affects the economy. Positive impacts on the economy may include (1) increases in personal income; (2) decreases in employee turnover; (3) increases in local consumption; (4) higher labor force participation rates; (5) decreases in social welfare costs; and (6) higher levels of technological development, investment, and productivity.

However, on the downside, raising the minimum wage may (1) decrease demand for labor; (2) increase inflation from employers passing higher employee costs onto the consumer; (3) cause wage compression; (4) reduce local competitiveness; and (5) have disemployment effects. The disemployment effects happen when businesses hire fewer low-wage workers in response to an increase in the minimum wage; benefits to low-wage workers from increased wages are offset by a reduction in hours worked or increased unemployment.

State Revenues: General fund tax revenues increase minimally from increasing the State's minimum wage. Individuals earning minimum wage likely have low, if any, State income tax liability so raising the minimum wage only has a small effect on State income tax revenues. Given that raising the minimum wage boosts the purchasing power of minimum wage workers and generates new consumer spending, general fund sales tax revenues increase minimally. To the extent that payroll spending for employers increases, general fund tax revenues from employers may decrease as they can deduct payroll from taxable income.

DLLR anticipates investigating more violations of the State's Wage and Hour Law under the bill, so general fund revenues may increase minimally due to additional fines assessed against violators of the State's Wage and Hour Law.

State Expenditures:

Expanded Enforcement of Wage and Hour Law Required

By expanding the applicability of the State's Wage and Hour Law and increasing the State's minimum wage, the bill creates additional enforcement responsibilities for DLLR's Division of Labor and Industry. DLLR has not exercised its authority to investigate complaints about minimum wage payments and overtime compensation and to review wage records to enforce compliance since the budget cuts of 1991 effectively reduced available staff for this purpose from 34 to 6. Instead, since State and federal laws are similar, it has been referring complainants to the Employment Standards Administration at the U.S. Department of Labor (DOL). DOL investigators enforce FLSA, not the State's Wage and Hour Law, so DLLR would be responsible for pursuing complaints against employers accused of paying employees more than the federal wage of $7.25 but less than the State wage.

DLLR cannot absorb the additional workload within existing resources and requires additional staffing to respond to the increase in complaints due to the expanded applicability of the State's Wage and Hour Law.

The staff needed to respond to and manage the additional workload created by the bill includes an assistant Attorney General, an administrator, three full-time "wage and hour" investigators, two contractual "wage and hour" investigators, and one office clerk. DLLR advises that inquiries into wage and hour violations are expected to increase significantly due to the bill because the State minimum wage will be set at a higher rate than the federal minimum wage (unless that rate changes correspondingly). Moreover, the bill significantly broadens application of the Maryland Wage and Hour Law. DLLR estimates that at least 6,500 additional inquiries would be made and at least 1,600 complaints alleging minimum wage or overtime violations would be filed in the first few years. Based on prior experience, DLLR advises that the majority of employers in violation will voluntarily come into compliance with the bill's provisions after being contacted by division staff. However, at least 90 new formalized complaints must likely be investigated and processed each year by the division, with 10 of them requiring action in the court of appropriate jurisdiction. DLLR anticipates higher compliance of wage and hour laws in later years, so the contractual investigators are only needed for the first three years.

In addition to investigating and processing complaints, DLLR advises that the additional staff will conduct outreach efforts to inform employers, especially in sectors that historically have not been covered by wage and hour laws, of the new requirements. Finally, additional administrative support is needed to handle phone and email inquiries, prepare and file wage orders, handle equipment and supplies, and manage complaint files. Legal staff is needed to provide advice, review wage orders, and plead cases.

General fund expenditures increase for DLLR by $502,884 in fiscal 2015, which assumes a 30-day implementation delay from the bill's June 1 effective date so that DLLR staff are in place as of July 1, 2014, concurrent with the initial increase in the minimum wage. This estimate reflects the cost of hiring three investigators, two contractual investigators, one office clerk, one assistant Attorney General, and one administrator to investigate complaints and enforce the State's Wage and Hour Law. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Regular Positions	6
Contractual Positions	2
Salaries and Fringe Benefits	$430,431
One-time Start-up Costs	39,100
Ongoing Operating Expenses	33,353
Total FY 2015 State Expenditures	**$502,884**

Future year expenditures reflect annual increases and employee turnover, elimination of the contractual investigators, as well as annual increases in ongoing operating expenses.

This estimate does not include any health insurance costs that could be incurred for the specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Additional Staffing Costs

The Department of Budget and Management (DBM) advises that, on rare occasions, it employs summer and work study student workers who earn minimum wage. Any additional cost for these individuals is minimal and can be absorbed with existing resources. Also, DBM advises that MDoA employs 149 part-time senior citizen aides who are paid the minimum wage. However, this cost is fully offset by an increase in federal fund revenues of $147,616 in fiscal 2015 as the aides are paid with federal funds. Additionally, DBM advises that several hundred contractual and temporary employees, primarily within the Department of Natural Resources and the Department of Health and Mental Hygiene, are affected by the bill. Expenditures (all funds) increase by as much as $11,000 in fiscal 2015 and by as much as $54,000 in fiscal 2017 for these contractual and temporary employees, depending on employee turnover. The overall impact on State departments for contractual and temporary employees is likely minimal, and any such impact has not been accounted for in this estimate.

USM advises that 2,413 student employees are currently paid minimum wage, and 7,466 employees, of which the vast majority are students, earn hourly wages below $10.10. Higher education expenditures increase by $2.9 million in fiscal 2015 as these employees must be paid additional wages. DLS pays workers above $8.20 per hour so there is no impact in fiscal 2015, but DLS incurs minimal additional costs in later years to pay additional wages, which can be absorbed with existing resources. The Maryland Department of Transportation (MDOT) pays six part-time student interns minimum wage. This additional cost is minimal and MDOT advises it can be absorbed with existing resources.

Exhibit 4 displays the additional wages that would be paid to these employees under the bill. As depicted in Exhibit 4, expenditures increase by at least $2.9 million in fiscal 2015. Expenditures further increase in future years as the minimum wage increases. Estimated expenditures for fiscal 2018 and 2019 assume a 2.6% annual increase for inflation, and all estimates assume a State minimum wage that is higher than the federal minimum wage.

Exhibit 4
Effect of Minimum Wage on State Employees
Fiscal 2015-2019

Additional Staffing Costs	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Senior citizen aides	$147,616	$295,233	$442,849	$454,363	$466,177
USM students	$2,928,587	$7,237,118	$12,561,768	$12,888,374	$13,223,472
Increase in Expenditures	**$3,076,203**	**$7,532,351**	**$13,004,617**	**$13,342,737**	**$13,689,648**
Federal Fund Revenues	$147,616	$295,233	$442,849	$454,363	$466,177
Net Increase in Expenditures	**$2,928,587**	**$7,237,118**	**$12,561,768**	**$12,888,374**	**$13,223,472**

Source: Department of Legislative Services

Local Fiscal Effect: The Maryland Association of Counties estimates county personnel costs increase between $50,000 and $100,000 for counties with a population of fewer than 150,000 residents and greater increases for larger counties. Some local jurisdictions, such as Baltimore City and Queen Anne's County, require their employees to be paid according to living wage provisions. Even counties without living wage provisions tend to pay employees above minimum wage. Allegany County has very few employees who are paid minimum wage, so it expects less than a 0.1% increase in the county's total salaries and fringe expenditures. Thus, many local jurisdictions currently pay all employees wages higher than those required by the bill. However, several local jurisdictions surveyed indicate that some government employees are paid the current minimum wage or less than the eventual State minimum of $10.10. Wicomico County estimates expenditures increase by about $31,000 in fiscal 2015 and by $180,000 in fiscal 2017 to pay employees additional wages.

Montgomery and Prince George's counties have local minimum wages set above the minimum wage rates proposed in the bill. These local minimum wage laws take effect October 1, 2014, so the State minimum wage is higher than the local minimum wage for only the first two months of fiscal 2015. The local minimum wage rate does not apply to State employees, employees in certain municipalities, and employees who are younger than age 19 and work no more than 20 hours in a week, so the bill does not affect many employees in Montgomery and Prince George's counties. However, Montgomery and Prince George's counties pay employees at the Maryland-National Capital Park and Planning Commission, which is a bi-county agency empowered by the State, so, according to the commission's legal opinion, its employees are exempt from the local minimum wage laws. Under the bill, expenditures for Montgomery and Prince George's counties increase by $141,000 in fiscal 2015 to pay additional wages to 869 commission employees and by $1.8 million in fiscal 2019 to pay additional wages to 2,845 employees.

The Town of Bladensburg estimates seven summer interns in the youth summer employment program are affected, with the town paying additional wages of approximately $500 in fiscal 2015, $2,500 in fiscal 2016, and $4,500 in fiscal 2017. The Town of Berlin estimates expenditures increase by $8,000 in fiscal 2015 to pay 10 seasonal employees additional wages.

Small Business Effect: Small businesses that employ minimum wage workers in the State experience increases in their labor costs due to the bill. The Economic Policy Institute (EPI) estimates, when the bill is fully phased in, 304,000 Maryland workers directly benefit from the bill since the new minimum wage exceeds their current wage. Additionally, 151,000 Maryland workers indirectly benefit because employers are likely to give raises to those who are making just above the new minimum wage in order to preserve the employers' internal wage ladder. Thus, EPI estimates 455,000 Maryland workers receive $721 million in additional wages directly and indirectly over the phase-in period. The effect of such increases is especially meaningful for employers who were previously not subject to the Wage and Hour Law. Furthermore, the reduction of the tip credit increases the minimum wage that employers must pay tipped employees. Thus, payroll costs for small businesses, such as businesses in the hospitality industry, increase significantly due to the bill. Currently, tipped employees must be paid $3.63 per hour. Under the bill, such employees must be paid $5.74 per hour in fiscal 2015, $6.41 per hour in fiscal 2016, and $7.07 per hour in fiscal 2017. According to data extracted from CPS, more than 100,000 employees working in accommodation and food services are directly affected by the bill.

Exhibit 5 lists the number of Maryland workers that are paid up to $10.10 per hour as of December 2013, according to data accessed through CPS. These numbers provide a snapshot of Maryland and may not accurately portray the number of seasonal employees who earn $10.10 or less per hour. Additionally, not all of these individuals would receive an increase in wages, as some are not covered by FLSA or State law or work for a unit of government.

Exhibit 5
Number of Employees Earning $10.10 or Less Per Hour
December 2013

	$7.25 or less	$7.25-$8.20	$8.21-$9.15	$9.16-$10.10	Total
Maryland Workers	57,500	122,860	96,385	57,706	334,451

Source: Current Population Survey

To the extent that higher wages increase worker productivity, businesses would be less affected by the provisions of the bill. Additionally, minimum wage workers tend to have a low saving rate so increasing their wages could lead to additional consumer spending for small businesses.

Additional Information

Prior Introductions: A similar bill, HB 1204 of 2013, received a hearing in the House Economic Matters Committee, but no further action was taken. Its cross file, SB 683, received an unfavorable report from the Senate Finance Committee.

Cross File: None.

Information Source(s): Allegany, Harford, Montgomery, Talbot, and Wicomico counties; Baltimore City; towns of Berlin and Bladensburg; cities of College Park, Frostburg, and Rockville; Department of Budget and Management; Judiciary (Administrative Office of the Courts); Department of Labor, Licensing, and Regulation; Maryland Department of Transportation; University System of Maryland; Congressional Research Service; U.S. Department of Labor; U.S. Census Bureau; Economic Policy Institute; Maryland Association of Counties; Department of Legislative Services

Fiscal Note History: First Reader - February 10, 2014
ncs/mcr

Analysis by: Heather N. Ruby

Direct Inquiries to:
(410) 946-5510
(301) 970-5510