





October 4, 2024

**FISCAL AND POLICY NOTE**

TO: Jennifer A. Jenkins  
Council Administrator

Colette R. Gresham, Esq.  
Deputy Council Administrator

THRU: Josh Hamlin   
Director of Budget and Policy Analysis

FROM: David Noto   
Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Impact Statement  
CB-088-2024 Minimum Wage Indexing

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**CB-088-2024** (*Proposed by:* Council Members Dernoga and Oriadha)

Assigned to the Government Operations and Fiscal Policy Committee

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**AN ACT CONCERNING MINIMUM WAGE INDEXING** for the purpose of indexing Prince George's County's minimum wage to the Consumer Price Index.

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**Fiscal Summary**

**Direct Impact**

*Expenditures:* Potential for increased expenditures in higher salaries for County employees paid hourly wages to avoid wage compression.

*Revenues:* No anticipated revenue impact.

## Indirect Impact

Likely Favorable.

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## Legislative Summary:

CB-088-2024<sup>1</sup>, proposed by Council Members Dernoga and Oriadha, was presented on September 13<sup>th</sup>, 2024, and referred to the Government Operations and Fiscal Policy Committee. This bill would index the minimum wage available in the County to the Consumer Price Index by repealing Subtitle 13A. Section 13A-117 of the County's Labor Code and reenact it with amendments. The County first enacted a phased minimum wage law in 2013 (CB-94-2013), however, the last increase was in 2017<sup>2</sup>. No inflation indexing was provided, and thus the value of the minimum wage is being eroded, relative to the cost of living.

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## Current Law/Background:

### *Federal law:*

Under the Fair Labor Standards Act (FLSA), the federal minimum wage for covered nonexempt employees is \$7.25 per hour<sup>3</sup>. The federal minimum wage does not increase automatically. Congress must pass an increase for the minimum wage to go up<sup>4</sup>. The federal minimum wage was last adjusted in 2009<sup>5</sup>. Most states also have minimum wage laws, and employees subject to both the state and federal minimum wage laws are entitled to whichever minimum wage rate is higher<sup>6</sup>. There are exceptions to the standard rate for minimum wage for workers with disabilities, students, and tipped employees, among others<sup>7</sup>.

### *State Law:*

In Maryland, the current standard minimum wage, as of January 1<sup>st</sup>, 2024, is \$15 per hour, as set by the Maryland Wage and Hour Law<sup>8</sup>. The Maryland Wage and Hour Law is Maryland's version of the FLSA<sup>9</sup>.

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<sup>1</sup> [Prince George's County Council - Reference No. CB-088-2024 \(legistar.com\)](#)

<sup>2</sup> [Prince George's County Council - Reference No. CB-094-2013 \(legistar.com\)](#)

<sup>3</sup> [Minimum Wage | U.S. Department of Labor \(dol.gov\)](#)

<sup>4</sup> [Questions and Answers About the Minimum Wage | U.S. Department of Labor \(dol.gov\)](#)

<sup>5</sup> [History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938 - 2009 | U.S. Department of Labor \(dol.gov\)](#)

<sup>6</sup> [Questions and Answers About the Minimum Wage | U.S. Department of Labor \(dol.gov\)](#)

<sup>7</sup> Ibid

<sup>8</sup> [Maryland Minimum Wage and Overtime Law - Employment Standards Service \(ESS\) - Division of Labor and Industry](#)

<sup>9</sup> [Introduction - The Maryland Guide to Wage Payment and Employment Standards - Employment Standards Service-Wage and Hour Information \(state.md.us\)](#)

*Current County Law:*

CB-094-2013, which took effect in February of 2014, increased the minimum wage for employees in the County 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 beginning October 1, 2017, the minimum wage in the County was adjusted to \$11.50 per hour<sup>10</sup>. Consequently, as the State's minimum wage is \$15 per hour, and thus higher than the County's minimum wage, employees in the County are currently paid at the State rate.

*Relevant legislation from Other Jurisdictions:*

In November of 2017, the Montgomery County Council passed Bill 28-17, which required the Chief Administrative Officer to adjust and increase the county minimum wage by a certain amount each year<sup>11</sup>. Stating in 2021, the bill required annual adjustments to the minimum wage by the annual average increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) for the previous calendar year, thereby keeping pace with inflation<sup>12</sup>. On July 1<sup>st</sup> of each year, the minimum wage in Montgomery County is adjusted. In 2023, the minimum wage increased to \$16.70 per hour<sup>13</sup>. In 2024, the minimum wage increased to \$17.15 per hour<sup>14</sup>. There is some variation in this rule, as it only applies to businesses which employ more than 50 individuals<sup>15</sup>. For medium and small businesses, the rate increased only by 50 cents or stayed at \$15 per hour, respectively<sup>16</sup>.

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**Resource Personnel:**

- Leroy Maddox, Legislative Officer

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**Discussion/Policy Analysis:**

CB-088-2024 would, starting on July 1 of 2025, index the minimum wage for workers in the County by taking the average percentage growth of the Consumer Price Index for All Urban Consumers (CPI-U) for the past 12-month period, beginning March 1, 2025, but the average percentage growth may not go beyond five (5) percent. If it is determined that the CPI-U saw a decline or no growth, the minimum wage shall remain the same as the previous 12-month period, although this will require a suspension by the County Council. The Council could also look at the County revenues over the past 6 months and determine whether a suspension is necessary.

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<sup>10</sup> [Prince George's County Council - Reference No. CB-094-2013 \(legistar.com\)](#)

<sup>11</sup> [Montgomery County Council - Legislative Information Management System – bill details \(montgomerycountymd.gov\)](#)

<sup>12</sup> Ibid

<sup>13</sup> [Montgomery County Minimum Wage Increases July 1 – Conduit Street \(mdcounties.org\)](#)

<sup>14</sup> [Office of Human Rights - Minimum Wage \(montgomerycountymd.gov\)](#)

<sup>15</sup> Ibid

<sup>16</sup> Ibid

CB-088-2024 is similar in concept to Montgomery County Council’s Bill 28-17, but with several key differences. CB-088-2024 uses the CPI-U, while 28-17 uses CPI-W. The CPI-U is a measure of the average change over time in prices paid by consumers for a market basket of goods and services. The CPI-U covers all urban or metropolitan area households, which represents approximately 88% of the total population<sup>17</sup>. The Montgomery County bill also does not include an upper limit for annual minimum wage adjustments, or the capacity for the County Council to suspend annual wage increases temporarily, as CB-088-2024 does. However, CB-088-2024 makes no mention of altering the minimum wage rate relative to the size of the business. More generally, the bill does not specify if the Director of Finance would be utilizing the CPI-U for Washington-Arlington-Alexandria area or the CPI-U for the nation as a whole. In March of 2024, the Bureau of Labor Statistics reported that prices in the Washington-Arlington-Alexandria area, as measured by the CPI-U, advanced 3.4% over the last 12 months.<sup>18</sup>

### *Economic Evaluation*

A minimum wage rate is one of many different variables that can affect a household’s standard of living. Others may include housing costs and food prices. Over time, the price of goods and services tends to rise, although inflation generally does not always rise consistently. Thus, if the minimum wage rate remains fixed, the real value of the minimum wage will decline over time<sup>19</sup>. Indexation is one method of keeping the relative value of the minimum wage on par with the price of other goods and services in the economy. Indexation is used in some federal entitlement programs, such as Social Security and Supplemental Nutrition Assistance Program benefits, as well as setting the minimum wage for employees on certain federal contracts<sup>20</sup>. Indexation allow for less volatility and more uniform changes in the minimum wage, as that the values measured by the CPI-U tend not to vary widely from year to year<sup>21</sup>.

Another innovation CB-088-2024 makes on Bill 28-17 is the inclusion of a “off-ramp” provision, whereby the Council may temporarily suspend an increase to the minimum wage rate if the seasonally adjusted total employment is negative. Seasonal adjustment is a statistical technique used by the Bureau of Labor Statistics to and remove the influences of predictable seasonal patterns, revealing how employment and unemployment change from month to month<sup>22</sup>. Over the course of a year, the size of the labor force and the levels of employment fluctuate due to events like changes in weather, major holidays, and school schedules. For example, a retail nursery and garden store will typically let go most of its staff after the end of the winter holiday season and rehire them at the beginning of spring in early March. Because these events follow a regular pattern each year, their influence on statistical trends can be eliminated by adjusting the statistics from month to month. These seasonal adjustments make it easier to observe the cyclical, underlying trend, and other nonseasonal movements in the series<sup>23</sup>. New York state included an off-ramp

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<sup>17</sup> [The Federal Minimum Wage: Indexation \(congress.gov\)](https://www.congress.gov/bills/116/1626/sections/1000)

<sup>18</sup> [Consumer Price Index, Washington-Arlington-Alexandria area – March 2024 : Mid-Atlantic Information Office : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/news.release/wharton.release.htm)

<sup>19</sup> [The Federal Minimum Wage: Indexation \(congress.gov\)](https://www.congress.gov/bills/116/1626/sections/1000)

<sup>20</sup> Ibid

<sup>21</sup> Ibid

<sup>22</sup> [What is seasonal adjustment? : U.S. Bureau of Labor Statistics \(bls.gov\)](https://www.bls.gov/news.release/wharton.release.htm)

<sup>23</sup> Ibid

provision in their indexed minimum wage increase law as part of the FY 2024 budget<sup>24</sup>. Progressives strongly opposed the inclusion of the off-ramp provision in New York's indexed minimum wage law, claiming that it would undermine the law and could leave workers worse off, in the event of high inflation<sup>25</sup>.

It is difficult to accurately determine the fiscal impact of indexing the minimum wage for the County, as Council staff have not been able to obtain the number of individuals earning minimum wage in the County. Nonetheless, based off national data collected by the Bureau of Labor Statistics, it is possible to make a series of logical conclusions as to how this would affect County residents. Workers earning minimum wage tend to be younger (19-25), employed in the service or hospitality industry, and are less likely to have earned a bachelor's degree<sup>26</sup>. Out of the Greater D.C. region, Prince George's County has been referred to as being a "sink" for negative regional economic development effects<sup>27</sup>, and thus a higher percentage of County residents are more likely to earn minimum wage, compared to the overall number of residents throughout the Greater DC area.

A concern commonly voiced in discussions of raising the minimum wage is the suspicion that smaller businesses will lose out, getting squeezed by higher labor costs, fewer job opportunities and the inability to adjust to competition with larger, more adaptable companies. New research from the University of California at Berkeley's Center on Wage and Employment Dynamics suggests that these commonly held beliefs within the business community may be overblown and a higher minimum wage may in fact help small businesses recruit workers<sup>28</sup>. Furthermore, if prices on goods and services rise gradually, and businesses pass on those costs to consumers in the form of small, manageable price increases, the researchers found that these increases are not enough to drive consumers away. This is compounded by research from the Congressional Budget Office suggests that, in general, increasing the federal minimum wage would raise the earnings and family income of most low-wage workers and thus lift some families out of poverty<sup>29</sup>.

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## **Fiscal Impact:**

- *Direct Impact*

Assuming the proposed legislation has a similar impact to Montgomery County's Bill 28-17, the financial effects would not be felt on County finances until FY 2027. This bill should not change any County revenues or expenditures in FY 2025 or FY 2026.

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<sup>24</sup> [Governor Hochul Announces Historic Agreement to Increase New York's Minimum Wage and Index to Inflation as Part of FY 2024 Budget | Governor Kathy Hochul \(ny.gov\)](#)

<sup>25</sup> [New York's minimum wage law has a loophole that could freeze increases starting in 2027: This "off-ramp" provision must be repealed | Economic Policy Institute \(epi.org\)](#)

<sup>26</sup> [home.pdf \(bls.gov\)](#)

<sup>27</sup> [Power, Privilege, And Peril: Governing In A Suburban Majority Black And Middle Class County - A Regional Perspective \(core.ac.uk\)](#)

<sup>28</sup> [Small-Businesses-and-the-Minimum-Wage.pdf \(berkeley.edu\)](#)

<sup>29</sup> [How Increasing the Federal Minimum Wage Could Affect Employment and Family Income | Congressional Budget Office \(cbo.gov\)](#)

The fiscal impact of this bill could be estimated using the current minimum wage of \$15.00 as the baseline. To determine the impact, a projection of the minimum wage and comparable increases at the same rate to higher median hourly wages would need to be used to discover how the changes to minimum wage would impact County employees with hourly wages. It would be necessary to have a complete list of all the salaries of County employees paid at an hourly rate in full-time-equivalent hours. When Montgomery County passed 28-17, they estimated that Montgomery County utilized roughly 565,258 hours of work in jobs with hourly wages. Thus, by FY 2021, when Montgomery County's minimum wage had risen from \$11.50 to \$15, Bill 28-17 had cost Montgomery County \$4,107,381 in increased hourly wages<sup>30</sup>. It is therefore logical to expect that CB-088-2024 would cost Prince George's County a somewhat lesser amount by FY 27, somewhere around \$1.3 million. As was previously mentioned, as Council staff have not been able to obtain the number of individuals earning minimum wage in the County, and thus are not currently able produce to an equivalent formula to calculate a number for comparison purposes.

- *Indirect Impact*

As a higher minimum wage is generally seen as having a stimulating effect on the economy, by boosting consumer spending, and raising families out of poverty, the proposed legislation will have broad positive indirect impacts throughout the County<sup>31</sup>. Furthermore, increased salaries for those who both live and work within the County may potentially mean fewer households needing to use social services provided by the County, and having more households earning more taxable income would mean that those social service programs would be better funded.

- *Appropriated in the Current Fiscal Year Budget*

No.

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**Effective Date of Proposed Legislation:**

The proposed Act shall take effect forty-five (45) calendar days after it becomes law.

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If you require additional information, or have questions about this fiscal impact statement, please reach out to me via phone or email.

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<sup>30</sup> [Montgomery County Council - Legislative Information Management System - bill details \(montgomerycountymd.gov\)](https://montgomerycountymd.gov/legislative-information-management-system/bill-details)

<sup>31</sup> [Increases in minimum wage boost consumer spending | Economic Policy Institute \(epi.org\)](https://www.epi.org/increases-in-minimum-wage-boost-consumer-spending/)