

# **THE IMPACTS OF THE \$9.50 LIVING WAGE ON THE ECONOMY OF THE CITY OF SANTA FE PART I**

Draft Report to the City of Santa Fe

August 31, 2007

UNIVERSITY OF NEW MEXICO

BUREAU OF BUSINESS AND  
ECONOMIC RESEARCH



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There are many others to thank – those who patiently answered our questions, who made available data, and who allowed themselves to be interviewed. We particularly want to thank the New Mexico Department of Labor Data for providing us with data under a memorandum of understanding these past few years that was critical to the statistical analysis presented in Chapter 4.

Finally, we wish to thank the City of Santa Fe for providing funding for this third study on the Living Wage Ordinance. We appreciate the work of City of Santa Fe staff, and particularly Scott Beckman from Economic Development, for handling arrangements so that we could do this work and report our findings to date.

**Lee A. Reynis**

# CHAPTER 1

## INTRODUCTION

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 examining a variety of secondary data sources. The report includes a statistical analysis of employment data from individual employers collected by the New Mexico Department of Labor in administering the unemployment insurance program. The results here will be complemented by two major efforts, a survey of Santa Fe employers and a series of focus groups with business owners/managers and with lower-wage workers. In addition, we will be undertaking a statistical analysis of the wage record data on individual employees that is also collected in conjunction with the unemployment insurance program.

The Living Wage Ordinance (LWO), which went into effect on June 24, 2004, mandated an \$8.50 minimum wage for all private businesses operating within the City limits that have 25 or more employees. The law applied to all employees – part-time and full-time – and to contract workers as well.<sup>1</sup> The LWO anticipated two increases, an increase to \$9.50 on January 1, 2006, and a second increase to \$10.50 on January 1, 2008. The wage was increased to \$9.50 on January 1, 2006. A proposed alternative to the \$10.50 implementation and one which has the support of the Mayor, some members of the City Council, the Living Wage Coalition and a number of labor and business groups, would expand coverage to all employers regardless of size and would, in lieu of an increase to \$10.50, apply an annual cost of living increase, so that the mandated minimum wage will gradually rise with inflation.

Investigating the economy of a City is not like conducting a controlled experiment in a scientific laboratory. Many factors are at play in a regional economy, making it difficult to quantify the effects of a particular policy change, in this case \$9.50 minimum wage, on businesses, employees and the economy as a whole. Therefore, it is important to set the stage for the analysis of the impact of the \$9.50 minimum wage on the economy of Santa Fe by describing the national, state, and local economic realities that are also impacting the Santa Fe economy. First of all, however, it is important to acknowledge that the \$8.50 minimum wage had already set in motion a series of changes -- of adaptation, of modification of systems and of patterns of behavior -- that were still playing out in the local economy when the minimum wage was increased to \$9.50. Rather than try to separate out the effects of the second wage increase from the first, we look at cumulative changes. So the graphs and tables in the Chapter 2 show developments during the time period before the initial implementation on June 24, 2004,

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<sup>1</sup> With the exception of non-profit organizations that provide home health care services with Medicaid reimbursement.

during the one and a half year period when the \$8.50 wage was effect, and since January 1, 2006, when the \$9.50 wage went into effect.

When the law initially went into effect, the Santa Fe economy was in the process of recovering from a period of slower growth that dates back to the mid-to-late 1990's. The economy had weathered a national recession and the sharp reduction in business and leisure travel that occurred after 9-11 and as a result of the general slowdown of the national economy. The City had just embarked on an ambitious effort to develop and implement an economic development strategy for the future. In 2005, we wrote about various developments nationally, internationally, and within New Mexico that were having, to varying degrees, an effect on businesses operating in Santa Fe, on their workers, on Santa Fe households, and on the overall direction and health of the Santa Fe economy. In the bullet points which follow, we update our 2005 analysis in an attempt to understand the changing context in which local businesses, local residents, local workers and business and leisure travelers are making decisions that impact economic outcomes.

- By late 2005, various developments have pushed energy prices well above where they have been for some two decades: \$25 dollar a barrel oil was then costing over \$60 a barrel, with the consensus is that oil prices may never again fall below \$40 per barrel. Today, oil prices are above \$70 per barrel. The latest forecast from Global Insight has West Texas Intermediate above \$65 per barrel through at least 2017, the end of their forecast period.
- By late 2005, the lowest mortgage rates in four decades have stimulated a housing boom and pushed up housing prices in one market after another. Mortgage rates were finally headed up with growing evidence that the national housing boom was coming to an end. Less than two years later, the housing boom has become the housing bust, with US housing starts down below 1.4 million units annually from the 2.1 million peak achieved in 2005. Similarly, sales of existing homes, which were 7.1 million units in 2005, are running well below 6.0 million units on a annualized basis. Housing prices have fallen in many markets. While mortgage rates (30 year fixed) are under 6.50%, short-term rates have risen substantially with the federal funds rate at 5.25%. Those with variable rate mortgages are feeling the pinch, and there are rising rates of delinquency and foreclosure, particularly in markets where housing prices are falling. The problems in the sub-prime market have broadly infected other markets, creating turmoil. Credit market spreads are growing and lenders have tightened up on lending criteria. Even the best mortgage funds, like Thornburg, have been adversely affected in the panicked flight to "quality."
- Consumer spending on services, including tourism, had picked up nationally by 2005 and has shown continued strength generally since then. The US dollar has continued to fall on foreign exchange markets and this has made the US a very attractive travel destination. Expenditures in the US related to inbound foreign travel grew by 10% in 2005 and by 7% in 2006.<sup>2</sup>

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<sup>2</sup> Calculated from data in Paul V. Kern and Edward A. Kocis, "US Travel and Tourism Satellite Accounts for 1998- 2006, US Survey of Current Business, June 2007, p.18.

- Nationally, businesses have enjoyed high profits these past few years and many are flush with cash. Since mid-2003, businesses have been expanding, hiring more people and investing – initially in equipment and software, but in 2006 and 2007 in plant as well.
- There were major changes to the federal tax code in 2001 and 2003. Under the Richardson administration, the State has made major changes to the income tax, with a phased reduction in marginal rates, and to the gross receipts tax. The elimination of the tax on food and certain medical services would have drastically reduced local government revenues. To fund a distribution that would hold local governments harmless, the State eliminated the 0.5 cent municipal credit, thus immediately increasing the tax within municipal boundaries by this amount.
- Federal efforts at deficit reduction have tended to focus on programs that provide public assistance to low income people. Essentially, the safety net has been torn, with more costs pushed on to the state and less assistance available or only available with strings attached. The continuing cost of the war effort, however, has meant that many other programs are feeling the budgetary axe. Federal agencies are losing positions. Also hit have been many non-profits that depend on the federal government for funding.

The New Mexico economy has generally performed well over the past few years when compared with the US and with other states. Nonfarm employment grew by 1.9% in 2004, by 2.3% in 2005, and by 3.0% in 2006, although there was a decided slowing in the final months of the year. Job growth has further decelerated in 2007 and was 1.7% in the second quarter. The state's job growth had been concentrated in construction, in government, primarily tribal employment (casinos), public schools and higher education (stimulated by the lottery scholarship program), and in health care and social assistance, and in mining. The construction sector has now seen two quarters where employment was below a year ago. Mining gains are still impressive, although below the double-digit growth rates of a year ago. Manufacturing came back briefly, but the loss of jobs at Intel (with more than 1,000 still slated to be laid off over the next few months), is having a toll even as Eclipse Aviation, Temper-Pedic and Merilat ramp up. State Government has offered a variety of incentives to the film industry and this has given a boost to employment in the information sector. Tourist activity appears to be up and with it employment in accommodations and food services. There continues to be strong growth in professional, scientific and technical services.

Amidst all these changes and cross-currents, the economy of Santa Fe is doing quite well. According to the Current Employment Survey nonfarm employment growth in the Santa Fe MSA (Santa Fe County) was 2.3% in the first quarter of this year and 2.1% in the second, a performance that put it above the State as a whole, above Albuquerque and even above typically fast growing Las Cruces. Private sector job growth was even more impressive: 2.9% in the first quarter of 2007 and 2.7% in the second year-over-year. Construction activity has been growing, so the sector that has been turning sour statewide is now providing a boost in Santa Fe. Other sectors showing strong growth in the past couple quarters year over year according to the CES include wholes trade, retail trade, financial activities, education and health care and information.



This report explores, to the maximum extent possible given the time and the data available, how the \$9.50 minimum wage imposed under the LWO has affected businesses and workers and the overall trajectory of the Santa Fe economy. The \$9.50 minimum wage has posed challenges as well as offering opportunities -- to local businesses, workers and residents of the City of Santa Fe.

Chapter 2 reviews the Santa Fe economy from before the \$8.50 wage went into effect through the most recent data available. In all cases we have tried to provide at least one year of data with which to observe the effects of the \$9.50 minimum wage. We will look at the accumulating quantitative evidence that bears on employment, unemployment, earnings, the use of public assistance, gross receipts tax revenues, construction activity, housing and tourism.

Chapter 3 briefly examines the evidence regarding the cost of living.

Chapter 4 presents the results of BBER's statistical analysis of the employer file from the NM Department of Labor's ES-202 data on workers covered for unemployment insurance.

Chapter 5 looks at some areas of special concern and discusses the evidence regarding what might be called "unintended consequences" of the higher minimum wage.

## CHAPTER 2

### PRELIMINARY ANALYSIS OF DATA ON THE SANTA FE ECONOMY

This chapter reports the evidence from accumulating secondary data sources on the performance of the Santa Fe economy since the living wage originally went into effect on June 24, 2004, giving particular attention to developments since the January 1, 2006, implementation of the \$9.50 minimum wage.

#### EMPLOYMENT

For decades, the standard argument against the minimum wage has been that it will reduce employment. As was discussed in our baseline report, the empirical evidence on employment impacts is mixed. Card and Kruger did not find reductions in employment<sup>3</sup>; in other studies, the employment impacts, while negative, have often been found to be relatively small.

BBER was able to access data from the New Mexico Department of Labor's *Quarterly Census of Employment and Wages* through the fourth quarter of 2006 for Santa Fe County. This series is based on employers quarterly reporting on workers covered for unemployment insurance. Nationally the employees covered by these reports account for some 97% of all wage and salary workers. This is the best data on employment and wages that exists. While quarterly figures for 2007 have yet to be published, BBER was able to put together the series by industry for the four quarters after implementation of the \$9.50 living wage. The results on employment by 2-digit industry are presented in Table 2.1. The top portion of the table first presents average annual employment for calendar years 2002-06, followed by the quarterly data for 2006. The lower portion of the table presents the year-over-year growth rates for each year and then for each quarter of 2006. Totals are presented for all private sector employment and all government employment as well as the grand total.

Overall employment has increased year-over-year in each quarter since the initial implementation. Figure 2.1 shows the increases in private sector employment by quarter for a year and a half before the original implementation of the \$8.50 wage in June 2004, for the year and a half after this wage went into effect, and for the four quarters since the \$9.50 wage became effective on January 1, 2006. Government employment has increased every quarter except the third quarter of 2006, although the performance has been more erratic. In the second quarter of 2005 there is a particularly large increase from a year earlier in local government employment. The public schools apparently discovered that they had not been reporting a whole group

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<sup>3</sup> · See David Card and Alan B. Krueger. *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton Univ Press, 1995.

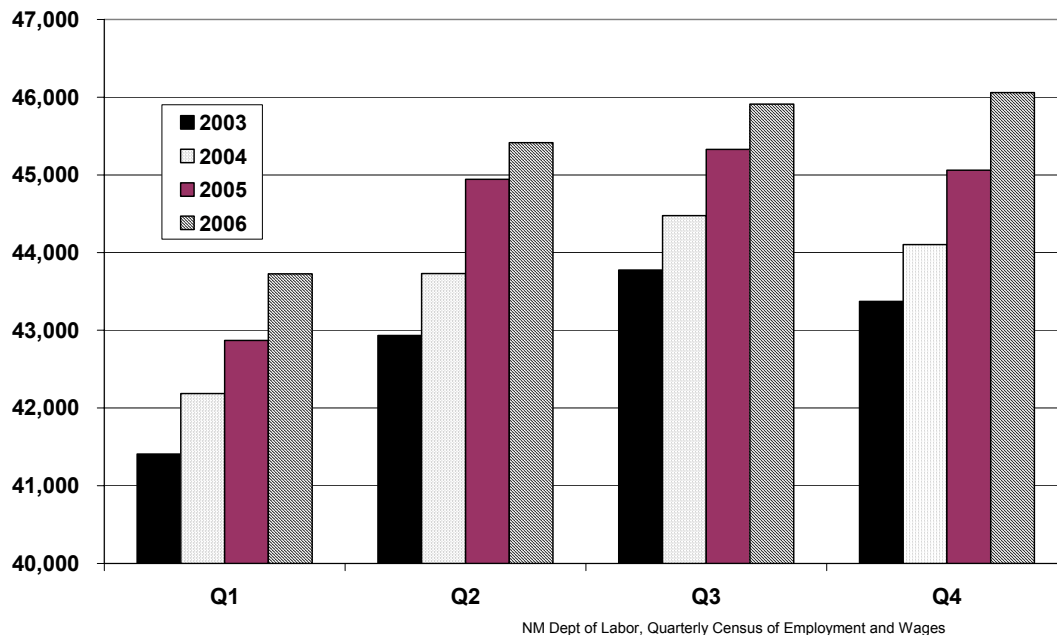
**Table 2.1**  
**Santa Fe County Employment: Quarterly Census of Employment and Wages**

Industry	2002	2003	2004	2005	2006	2006			
						Q1	Q2	Q3	Q4
Agriculture, forestry, fishing & hunting	147	145	131	120	130	122	145	130	122
Mining	142	99	88	100	161	170	168	155	148
Utilities	135	132	*	*	118	121	123	114	114
Construction	4,244	4,396	4,393	4,412	4,739	4,443	4,757	4,867	4,888
Manufacturing	1,253	1,165	1,211	1,207	1,112	1,107	1,130	1,103	1,108
Wholesale trade	985	948	985	1,105	1,146	1,095	1,134	1,164	1,189
Retail trade	8,354	8,475	8,517	8,549	8,766	8,504	8,637	8,864	9,060
Transportation & warehousing	559	536	564	539	543	561	544	518	548
Information	891	928	876	1,049	1,191	1,172	1,277	1,109	1,205
Finance & insurance	1,746	1,737	1,790	1,805	1,853	1,834	1,849	1,852	1,878
Real estate & rental & leasing	997	1,030	1,076	1,000	1,221	1,169	1,205	1,201	1,308
Professional & technical services	2,531	2,598	2,750	2,753	2,772	2,683	2,763	2,814	2,829
Management of companies & enterprises	205	203	248	360	269	268	274	268	265
Administrative & waste services	1,769	1,955	2,103	2,215	2,063	1,935	2,109	2,145	2,064
Educational services	1,270	1,386	1,419	1,566	1,551	1,589	1,564	1,388	1,663
Health care & social assistance	5,625	5,946	6,100	6,242	6,162	6,119	6,189	6,107	6,234
Arts, entertainment & recreation	1,075	1,033	891	1,012	948	943	976	1,053	819
Accommodation & food services	7,642	7,782	7,926	8,025	8,183	7,658	8,197	8,608	8,271
Other services, except public admin	2,283	2,324	2,411	2,345	2,331	2,209	2,352	2,437	2,323
Non-classifiable	47	56	*	32	19	23	20	11	21
<b>Total private sector</b>	<b>41,898</b>	<b>42,873</b>	<b>43,624</b>	<b>44,536</b>	<b>45,276</b>	<b>43,727</b>	<b>45,414</b>	<b>45,909</b>	<b>46,059</b>
Public administration	16,840	17,326	17,362	18,249	18,630	19,201	18,608	17,895	18,816
Federal	1,300	1,231	1,208	1,148	1,124	1,119	1,145	1,135	1,099
State	9,505	9,883	9,772	10,043	10,186	10,484	10,190	10,038	10,030
Local	6,035	6,212	6,382	7,059	7,320	7,598	7,273	6,722	7,687
<b>Grand total</b>	<b>58,738</b>	<b>60,200</b>	<b>60,986</b>	<b>62,785</b>	<b>63,906</b>	<b>62,928</b>	<b>64,021</b>	<b>63,804</b>	<b>64,875</b>
<b>Percent Change Year Over Year</b>									
Agriculture, forestry, fishing & hunting	-20.0%	-1.4%	-9.7%	-8.4%	8.3%	1.4%	17.0%	13.4%	1.4%
Mining	-16.0%	-30.3%	-11.1%	13.6%	61.0%	77.1%	65.0%	53.8%	47.8%
Utilities	*	-2.2%	*	*	*	17.5%	23.0%	47.6%	15.5%
Construction	-3.3%	3.6%	-0.1%	0.4%	7.4%	14.5%	7.1%	3.8%	5.3%
Manufacturing	-10.7%	-7.0%	3.9%	-0.3%	-7.9%	-8.4%	-7.3%	-8.8%	-7.1%
Wholesale trade	18.1%	-3.8%	3.9%	12.2%	3.7%	-1.3%	3.2%	4.5%	8.6%
Retail trade	0.1%	1.4%	0.5%	0.4%	2.5%	2.3%	1.8%	3.4%	2.7%
Transportation & warehousing	6.3%	-4.1%	5.2%	-4.4%	0.7%	3.9%	2.8%	-0.6%	-2.9%
Information	-9.5%	4.2%	-5.6%	19.7%	13.5%	20.2%	18.8%	11.8%	2.7%
Finance & insurance	14.2%	-0.5%	3.1%	0.8%	2.7%	2.8%	2.9%	1.5%	3.8%
Real estate & rental & leasing	-5.9%	3.3%	4.5%	-7.1%	22.1%	25.4%	25.3%	19.9%	18.5%
Professional & technical services	-2.2%	2.6%	5.9%	0.1%	0.7%	-0.2%	-1.5%	3.1%	1.2%
Management of companies & enterprises	5.3%	-1.0%	22.2%	45.2%	-25.3%	-24.7%	-23.7%	-24.8%	-27.9%
Administrative & waste services	5.0%	10.5%	7.6%	5.3%	-6.9%	-5.8%	-10.6%	-8.7%	-1.1%
Educational services	-4.0%	9.1%	2.4%	10.4%	-1.0%	1.0%	-0.5%	-0.9%	-2.3%
Health care & social assistance	9.2%	5.7%	2.6%	2.3%	-1.3%	0.7%	-1.6%	-3.3%	-0.9%
Arts, entertainment & recreation	2.3%	-3.9%	-13.7%	13.6%	-6.3%	-7.2%	-13.6%	-4.9%	-6.3%
Accommodation & food services	1.6%	1.8%	1.9%	1.2%	2.0%	-1.5%	1.4%	3.2%	4.9%
Other services, except public admin	2.6%	1.8%	3.7%	-2.7%	-0.6%	-1.3%	-0.7%	-1.6%	0.9%
Non-classifiable	*	19.1%	*	*	-40.6%	-28.1%	-43.3%	-68.6%	-14.7%
<b>Total private sector</b>	<b>1.4%</b>	<b>2.3%</b>	<b>1.8%</b>	<b>2.1%</b>	<b>1.7%</b>	<b>2.0%</b>	<b>1.0%</b>	<b>1.2%</b>	<b>2.2%</b>
Public administration	<b>1.3%</b>	<b>2.9%</b>	<b>0.2%</b>	<b>5.1%</b>	<b>2.1%</b>	<b>9.4%</b>	<b>0.8%</b>	<b>-2.4%</b>	<b>0.6%</b>
Federal	-4.2%	-5.3%	-1.9%	-5.0%	-2.1%	-3.8%	-1.7%	-1.2%	-1.3%
State	1.4%	4.0%	-1.1%	2.8%	1.4%	4.0%	1.5%	-0.9%	1.0%
Local	2.5%	2.9%	2.7%	10.6%	3.7%	20.5%	0.3%	-4.8%	0.4%
<b>Grand total</b>	<b>1.4%</b>	<b>2.5%</b>	<b>1.3%</b>	<b>2.9%</b>	<b>1.8%</b>	<b>4.2%</b>	<b>1.0%</b>	<b>0.2%</b>	<b>1.8%</b>

\* Non-Disclosure of data due to Confidentiality. Sum of Divisions may not add to total due to Non-Disclosure.

New Mexico Department of Workforce Solutions, *Quarterly Census of Employment and Wages*, as retrieved from website ([www.dws.state.nm.us](http://www.dws.state.nm.us))

**Figure 2.1**  
**Santa Fe County Average Quarterly Employment, Total Private Sector**



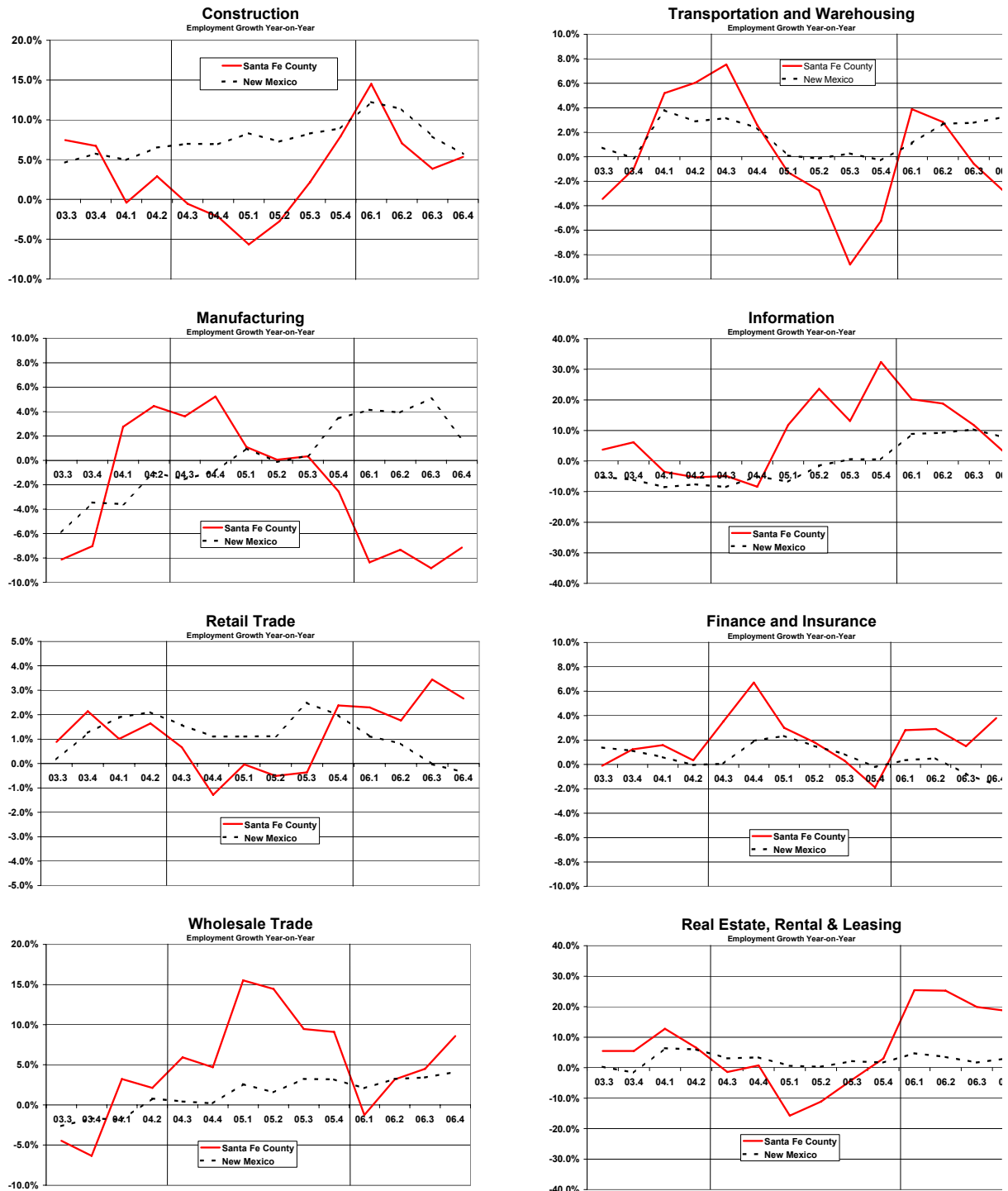
of employees and modified their procedures, only to discover some double-counting. Here we are most concerned with private sector employment.

The figures reported in the table for different private sector industries reflect net changes. In any quarter new businesses may open and existing businesses may expand, while some businesses may close or reduce their workforce through layoff or attrition. When a large business opens or an existing business implements a sizeable expansion, it can impact the overall numbers for the industry. In such an instance there may be elevated growth rates for 4 quarters until the expansion becomes part of the base used in calculating current growth rates. The reverse can happen when a large business shuts its doors or has a major layoff. Thus manufacturing picks up at the beginning of 2004 after major losses quarter after quarter in 2003. In the case where businesses serve a primarily local market, growth after a major new player (e.g., a big box retailer) enters the market may fall to zero or even below as existing businesses adjust and as the new player is absorbed into the market. The aggregate numbers have less erratic movements but they are clearly affected by the different currents in different industries.

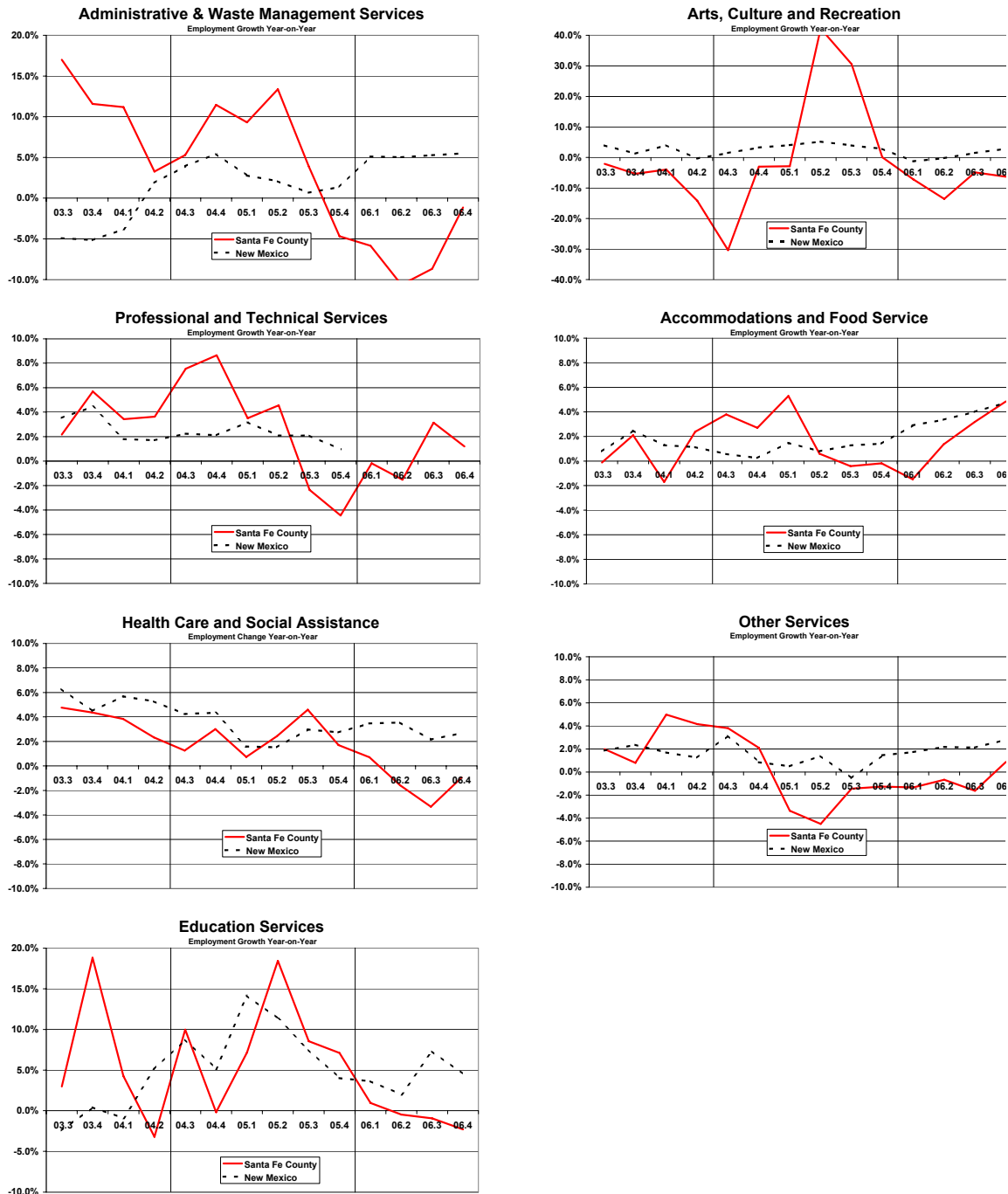
Figure 2.1 examines the recent employment growth path for all major sectors in the Santa Fe County economy and offers a comparison with New Mexico. Since the Santa Fe economy is much smaller, the year on year quarterly growth rates fluctuate more erratically than do the state figures. The vertical lines in each of the graphs denote the times when a new mandated living wage went into effect: the \$8.50 wage just at the end of June in 2004 and the \$9.50 wage on January 1, 2006. The graphs

show four quarters of experience prior to the initial implementation and four quarters since the \$9.50 wage went into effect.

**Figure 2.2**  
**Employment Growth by Industry, Santa Fe County and New Mexico**



**Figure 2.2**  
**Employment Growth by Industry, Santa Fe County and New Mexico, continued**



The recent experience is mixed. Overall, private sector employment has increased in every quarter. In the construction industry, employment fell off in 2004 after the \$8.50 minimum wage went into effect but recovered in the second half of 2005, with strong growth continuing into 2006. By contrast, the rate of construction employment growth in the state continued to accelerate through the first quarter of 2006, after which a slow-down is definitely in evidence. Manufacturing had close to 4% employment growth in the first half of 2004 and this continued for 2 quarters after the \$8.50 wage went into effect. Manufacturing employment growth fell to zero by the second quarter of 2005, and employment declined thereafter by 4% year on year just as manufacturing activity picked up in the state as a whole.

On the other hand, the important retail trade sector which historically has employed many lower wage workers, while slumping during late 2004-2005, had a good year in 2006. The pattern is quite different from the state, where growth decelerated throughout 2006. Wholesale trade has generally had strong growth in employment since mid-2004. Transportation and warehousing, which is a small sector, has been up and down. Information has had very strong growth for several quarters, although growth decelerated markedly at the end of 2006. Finance and insurance has generally been strong, with job growth in the neighborhood of 3% in 2006. Real estate had a bad year in 2004-2005 but came back strong in 2006, in contrast to the rest of the US and the state as a whole. Administrative and waste management services was very strong after mid-2004 but experienced declines in every quarter of 2006. Professional and technical services, which we would expect to be strong in Santa Fe, had four very strong quarters beginning with the third quarter of 2004, then four weak or negative quarters, with job growth picking up a bit in the second half of 2006.

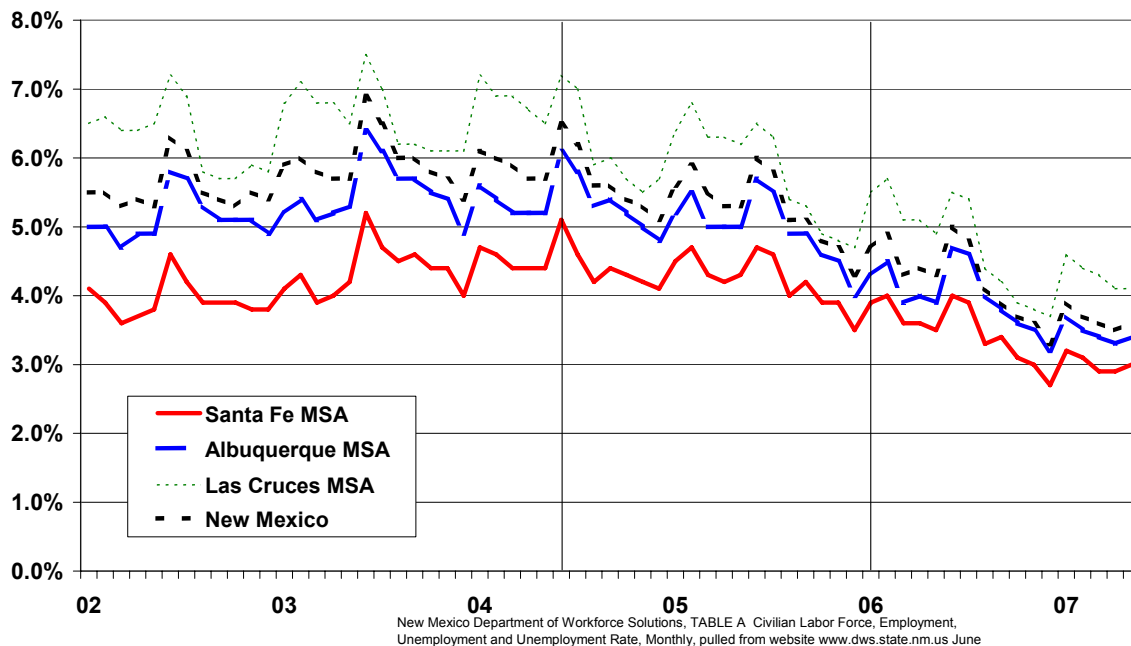
Of concern, the health care and social assistance sector, which has nationally and in New Mexico, continued to show strong job growth in and out of the national recession, had job growth slow to be in the neighborhood of 2% 2004-2005 and then had year-over-year job declines from the second quarter of 2006 forward. While there are many high-paying jobs in this sector, the sector also has a large number of lower wage workers, (e.g., in home healthcare). Education services (not public sector) is a small sector and evidences considerable fluctuation throughout the period shown. The same may be said for Arts, Culture and Recreation, which, in addition, is very sensitive to weather and to the amount of snowfall.

The important accommodation and food service sector, which has a very large proportion of lower wage workers, has done quite well since mid-2004. Santa Fe appears to have benefited both from the recovery of the tourism industry in the US and from a falling dollar that has made it relatively inexpensive for foreign tourists to travel in the US. On the other hand, the other services sector has continued to lose jobs. The question is always whether some of these workers may today paid under the table.

## UNEMPLOYMENT AND THE CIVILIAN LABOR FORCE

Trends in unemployment have been cited in an effort to show that the mandated minimum wage has had an adverse affect on employment and on working people. The following chart based on the latest data available from the New Mexico Department of Workforce Solutions shows that the Santa Fe MSA (same geography as Santa Fe County) unemployment rate is today lower than it was a couple years ago, indeed than before the living wage came into effect. Figure 2.3 shows the monthly unemployment rates for Santa Fe since January 2002 and offers a comparison with Albuquerque and Las Cruces and with New Mexico as a whole. As the chart indicates, the unemployment rate in Santa Fe continues to be well below than of the other two MSAs and also the state as a whole. Unemployment is lower in all areas today than it was back 2002.

**Figure 2.3**  
**Monthly Unemployment Rates**  
**Santa Fe, Albuquerque, Las Cruces and New Mexico**

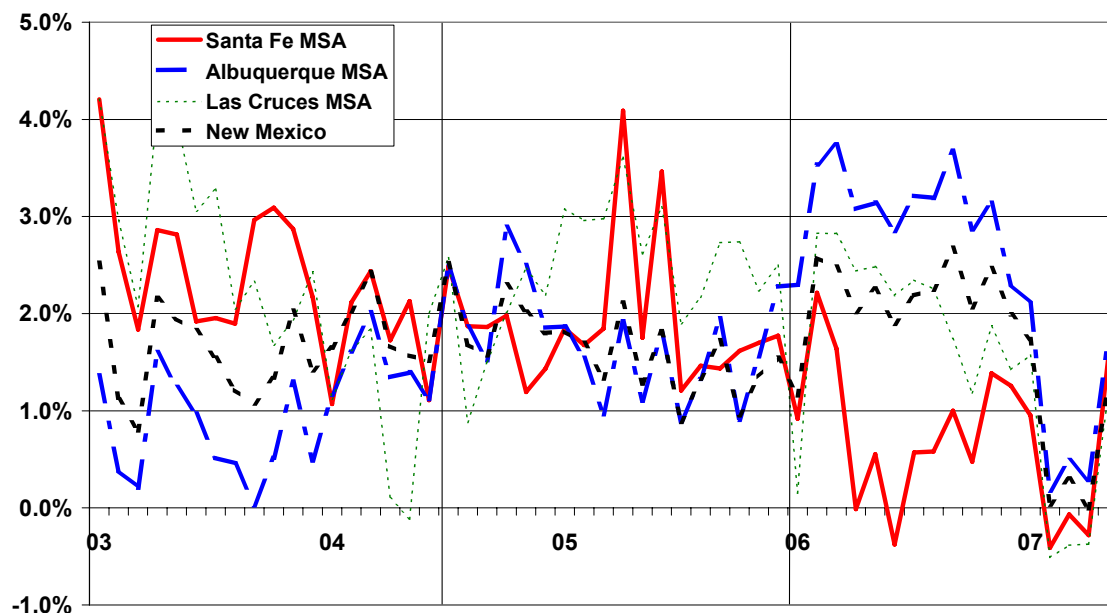


As rates have moved down the gap between Santa Fe and the other areas has been reduced both absolutely and relatively. So, for example, in 2002, the average Albuquerque unemployment rate was 26.0% higher than Santa Fe; in 2005, the Albuquerque rate was 17.7% higher; in 2006, 14.4%. For New Mexico, the comparable percentages are 52.1%, 37.3% and 35.8%. So while there is clear evidence that the Santa Fe unemployment rate has fallen since July 2004, it has, in effect, fallen somewhat more slowly than rates elsewhere. However, it may indeed just be tougher to push down rates that are already very low.



A second chart, Figure 2.4, looks at the growth in the civilian labor force for the four geographies since the beginning of 2002. All figures are quarterly growth rates over the same quarter a year before. The previous report had noted that the higher rates of unemployment in Santa Fe in 2004 reflected a high rate of growth in the civilian labor force as people who were not working and not looking for work perceived improved opportunities and decided to start looking for work, effectively entering the civilian labor force. This is the paradox of unemployment: the rate of unemployment often rises as job opportunities expand and people start actively looking for work, which qualifies them to be counted in the civilian labor force, and falls as people become discouraged and stop looking for work. The fact that the labor force was initially growing faster in Santa Fe is evident in the first segment of the graph. Things changed in Santa Fe in 2006, when the growth in the labor force was well below the other areas.

**Figure 2.4**  
**Growth in the Civilian Labor Force, Quarterly, Year-on-Year**  
**Santa Fe, Albuquerque, Las Cruces and New Mexico**



New Mexico Department of Workforce Solutions, TABLE A Civilian Labor Force, Employment, Unemployment and Unemployment Rate, Monthly, pulled from website [www.dws.state.nm.us](http://www.dws.state.nm.us) June

## EARNINGS

The best available data on wages for Santa Fe County is that collected by the New Mexico Department of Labor for employees covered by unemployment insurance. The same source that provided the information on employment also reports information on average weekly earnings. Table 2.2 reports the average weekly wages by 2-digit NAICS sector.

**Table 2.2**  
**Santa Fe County Average Weekly Wages by Industry**

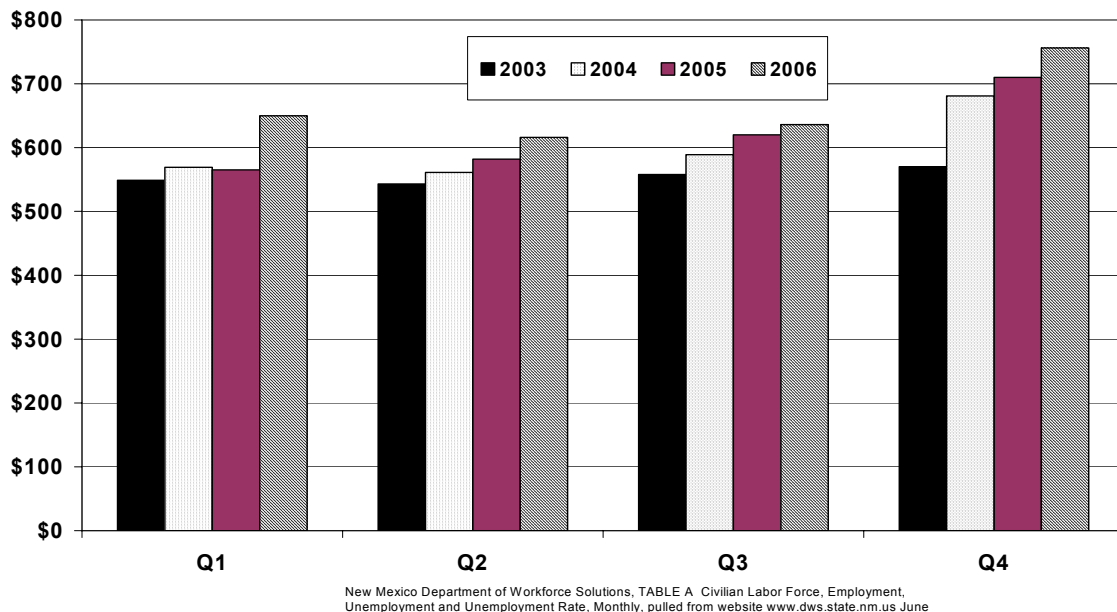
Industry	2002		2003				2004				2005				2006		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry, fishing & hunting	426	447	449	429	495	481	432	541	481	470	389	445	553	556	448	433	491
Mining	929	951	980	856	884	935	876	910	874	1,040	1,017	976	1,208	1,295	1,098	965	987
Utilities	748	943	832	1,069	905	973	*	1,077	948	*	1,175	1,116	*	*	1,146	976	1,132
Construction	571	557	534	542	566	562	548	593	605	632	540	577	630	686	606	637	635
Manufacturing	504	541	556	576	573	606	612	595	594	684	556	0	629	647	642	601	650
Wholesale trade	661	687	739	658	711	717	746	710	730	838	747	712	772	801	768	734	832
Retail trade	482	476	477	460	480	480	530	482	551	540	494	497	548	548	551	526	557
Transportation & warehousing	535	542	521	548	542	538	530	562	550	597	545	569	623	635	597	625	664
Information	719	754	730	770	745	750	832	814	876	895	925	833	917	759	897	622	920
Finance & insurance	849	950	975	885	907	1,010	956	902	927	1,410	1,043	966	1,022	1,804	1,088	992	1,025
Real estate & rental & leasing	705	1,632	662	654	628	666	631	630	617	765	530	542	608	764	686	594	602
Professional & technical services	941	1,013	1,012	1,012	973	1,069	1,003	961	926	1,383	992	1,010	1,001	1,518	1,465	1,093	1,055
Management of companies & enterprises	744	627	670	677	728	739	785	780	804	971	744	744	863	1,008	898	906	858
Administrative & waste services	421	431	465	455	458	471	496	487	482	573	457	460	516	579	517	509	503
Educational services	568	526	477	516	570	507	478	541	554	516	500	539	634	540	576	568	633
Health care & social assistance	665	670	657	647	702	699	655	659	730	836	663	734	745	844	744	792	784
Arts, entertainment & recreation	448	481	397	553	462	489	430	570	518	673	453	468	594	624	495	535	587
Accommodation & food services	323	309	306	301	322	314	308	311	340	350	315	333	362	353	342	352	377
Other services, except public admin	468	476	483	464	476	481	469	475	490	531	487	516	516	556	548	548	551
Non-classifiable	423	447	348	349	385	516	*	679	617	*	674	1,080	994	909	431	545	698
Total private sector	545	577	549	543	558	570	569	561	589	681	565	582	620	710	650	616	636
Federal	879	923	892	952	938	947	985	1,016	1,078	1,001	1,037	1,014	1,085	1,070	1,088	1,073	1,148
State	646	683	638	711	649	679	667	756	677	770	683	776	786	696	803	807	801
Local	471	568	543	679	482	580	571	642	492	635	569	624	506	566	556	607	564
Total Government	602	660	623	717	609	663	654	733	638	735	665	732	697	665	722	745	734
Grand total	561	601	571	593	572	597	594	609	603	626	594	626	642	697	672	653	663

\* Totals suppressed to avoid disclosure.

Source: New Mexico Department of Workforce Solutions, *Quarterly Census of Employment and Wages*

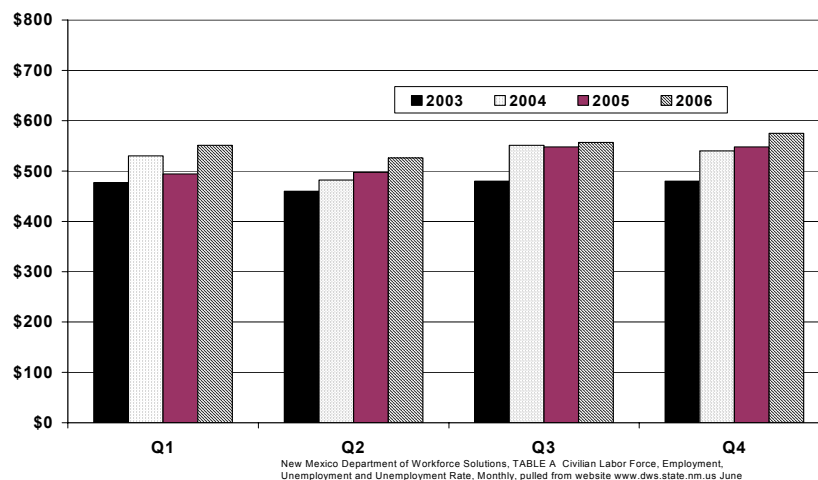
Figure 2.5 presents the data on total private sector average quarterly wages. Note that average wages showed considerable improvement in the first half year following the initial implementation of LWO (calendar 2004, third and fourth quarters). Performance after that was less impressive until the implementation of the \$9.50 minimum wage (first quarter of 2006).

**Figure 2.5**  
**Average Weekly Private Sector Wages, Santa Fe County**

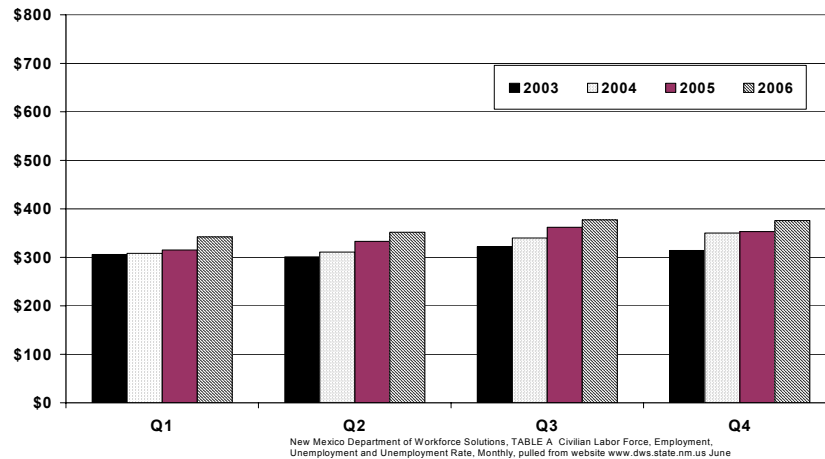


There are, of course, many developments that can affect average wages in a particular industry. Below in figures 2.6 through 2.9, we provide similar graphs for a number of industries that employ a large number of lower wage workers. Scales on vertical axis are identical.

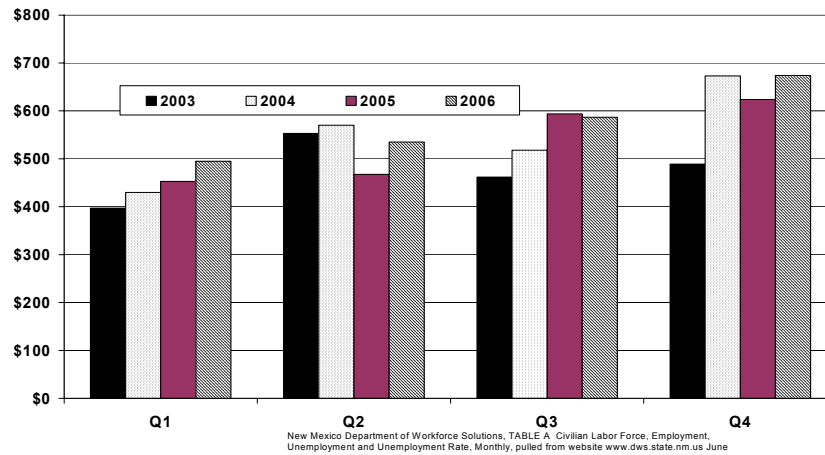
**Figure 2.6**  
**Average Weekly Wages in Retail Trade, Santa Fe County**



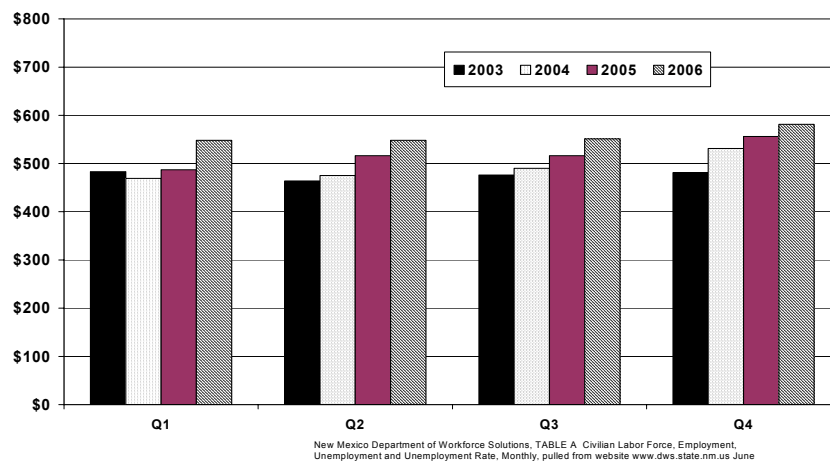
**Figure 2.7**  
**Average Weekly Wages Accommodations and Food Service, Santa Fe County**



**Figure 2.8**  
**Average Weekly Wages Arts, Entertainment & Recreation Santa Fe County**



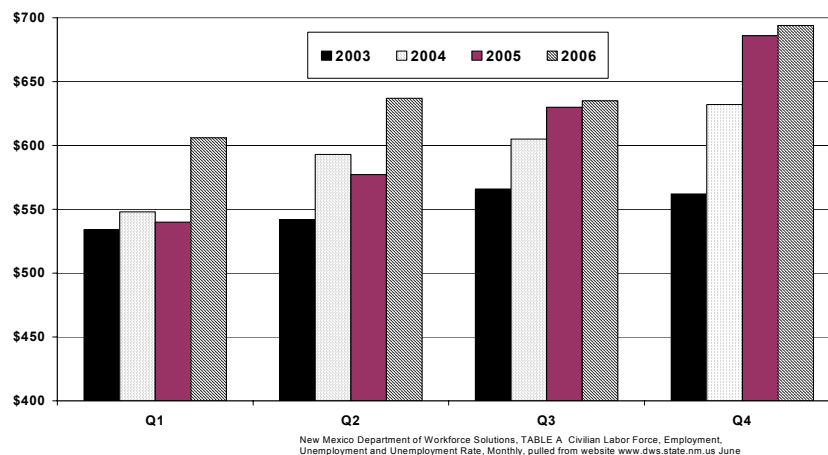
**Figure 2.9**  
**Average Weekly Wages Other Services, Santa Fe County**



The general pattern is for average weekly wages to increase over time. Particular circumstances help to explain exceptions. For example, quarterly wages in miscellaneous store retailers, the classification that includes art galleries, were exceptionally high in the first quarter of 2004 --about \$5 million higher than total reported earnings in the first quarter of 2005. On the other hand, the drop off in average weekly wages in the arts, entertainment and recreation industry in the second quarter of 2005 occurred at the same time that the industry experienced a major increase in employment.

The pattern in construction is interesting. Figure 2.11 provides the picture for Santa Fe. Note the very large gains in average wages in the third and fourth quarters of 2004, followed by year-over-year losses in 2005. In 2006, however, there are gains over the previous year in every quarter. Developments in the construction industry will be discussed in more detail under Construction Indicators below.

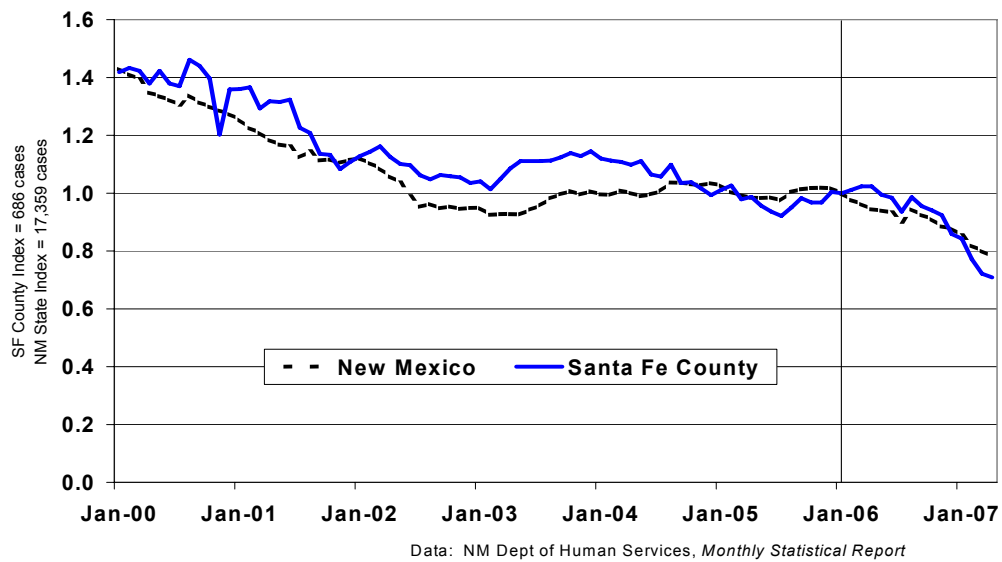
**Figure 2.10**  
**Average Weekly Wages Construction, Santa Fe County**



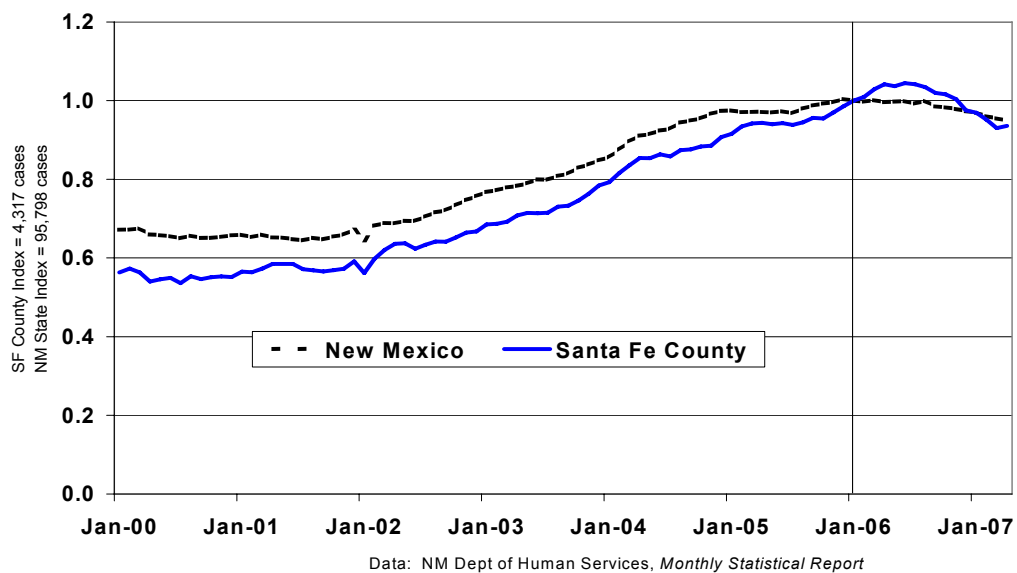
## RELiance ON SOCIAL ASSISTANCE PROGRAMS

One hoped for outcome in raising the minimum wage is a reduction in poverty and in the population's reliance on social assistance programs. Figures 2.12 through 2.15 report the results in terms of caseloads for four different social assistance programs administered by the New Mexico Human Services Department: the Temporary Assistance for Needy Families (TANF) Program; Foodstamps; Medicaid; and General Assistance. In each case, Santa Fe County is compared with New Mexico as a whole. The monthly figures on caseloads are all indexed to January 1, 2006, the month that the \$9.50 living wage went into effect.

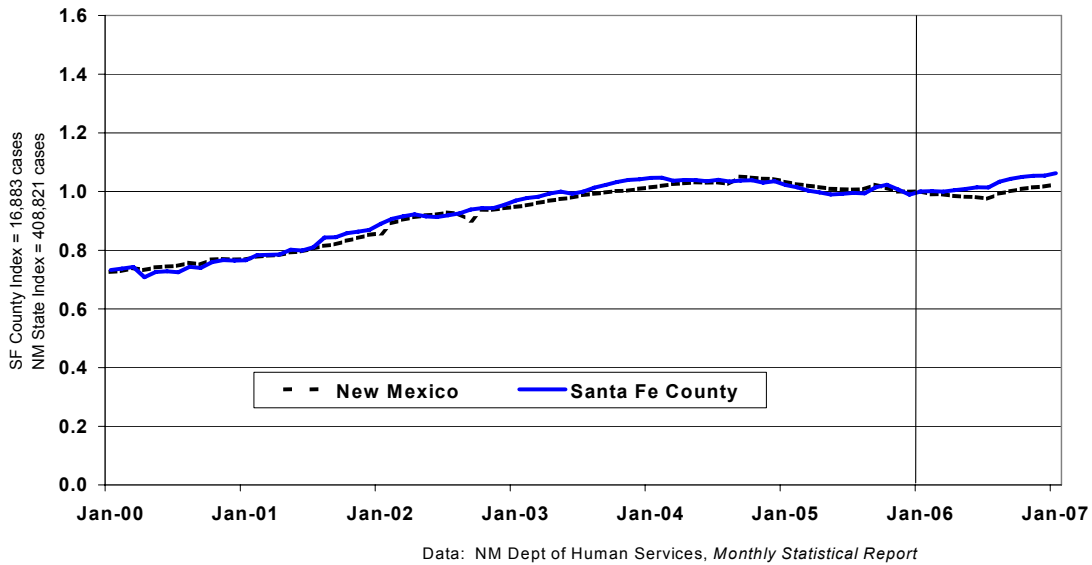
**Figure 2.11**  
**TANF Cash Assistance Caseload, Santa Fe County and New Mexico**  
**Indexed to Jan 2006**



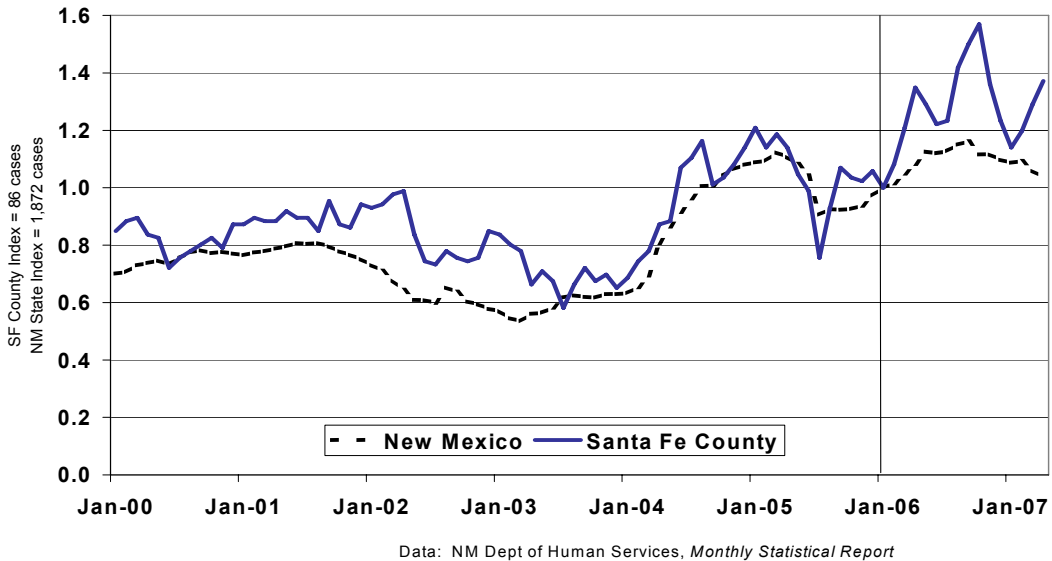
**Figure 2.13**  
**Food Stamp Caseload, Santa Fe County and New Mexico**  
**Indexed to Jan 2006**



**Figure 2.14**  
**Medicaid Eligibles, Santa Fe County and New Mexico**  
**Indexed to Jan 2006**



**Figure 2.14**  
**General Assistance Caseload, Santa Fe County and New Mexico**  
**Indexed to Jan 2006**



Caseloads for both TANF and General Assistance generally declined faster or grew more slowly in Santa Fe County as compared with the state as a whole after the implementation of the \$8.50 minimum wage. After the \$9.50 wage went into effect on January 1, 2006, caseloads for both programs increased. In the case of TANF, caseloads in Santa Fe actually increased slightly at first before declining. By January

2007, however, Santa Fe caseloads are well below what they were a year earlier and the Santa Fe line is below the state line. In the case of General Assistance, the Santa Fe caseload continues to grow at a faster rate than the state as a whole.

Medicaid eligibles in the County have grown at roughly the same rate as the state, although after January 2006, the rate of growth has 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.

The above comparisons, while mixed for the living wage, actually subject Santa Fe County to a tougher standard since they are made on the basis of actual caseloads without regard to the different rates of population growth. Santa Fe County in both the US Census Bureau and BBER's population estimates through 2005 is estimated to have grown at a faster rate than the state as a whole.

For the purpose here the Santa Fe County public assistance data have the disadvantage that they cover a much larger area than the City of Santa Fe. Indeed, in 2000, the population within the City limits accounted for 48% of the total population in the County. A public assistance measure with the advantage of covering a smaller geography and population is the proportion of children in the public schools that are receiving free and reduced lunches. As Table 2.3 indicates, the percentage of students receiving free and reduced lunches in the Santa Fe Public Schools has increased in every year since the 2002-03. School year 2005-06 had a large increase in the percentage of Santa Fe students in the school lunch program. Moreover, the percentage in the reduced program fell from 10.8 to 6.9%, while the percent in the free lunch program increased from 42.4 to 50.2%. In that same year statewide, the total percentage of public school children receiving subsidized lunches actually fell from 58.0 to 54.5%. There are, of course, many reasons why this

**Table 2.3**  
**Percent of Students Receiving Free and Reduced Price Lunches**

	% Free	% Reduced	Total	% Free	% Reduced	Total
2002-03	40.4	10.8	51.2	47.1	9.9	57.0
2003-04	41.2	10.4	51.6	48.5	9.8	58.3
2004-05	42.4	10.8	53.2	48.1	9.9	58.0
2005-06	50.2	6.9	57.1	45.3	7.1	52.4

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New Mexico Public Education Department

indicator might go up in Santa Fe. BBER talked with key people in the school district. Apparently there were some changes in policy in 6 schools that may help to explain the results for 2006. BBER is awaiting further information.

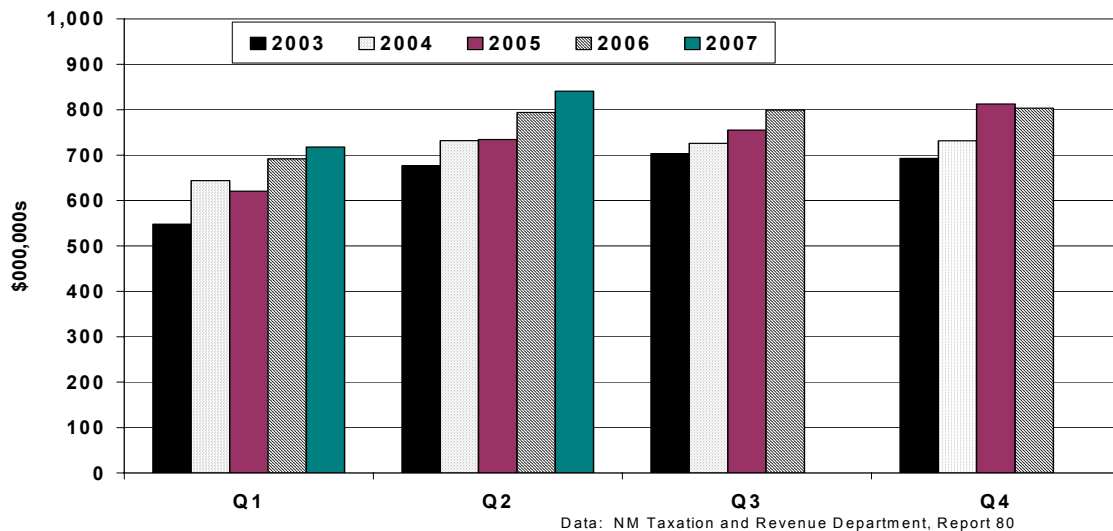


## GROSS RECEIPT TAXES

On and off there has been considerable concern in Santa Fe about declining gross receipts tax revenues and possible adverse effects of the LWO on the City's tax base. In this section we examine the evidence on gross receipts taxes, looking specifically at what has happened to the gross receipts tax base – taxable gross receipts -- from the first quarter of 2003 until the present. This period was chosen because it gives at least one year (actually a year and a half of activity in most cases) prior to implementation of the \$8.50 minimum wage and at least one and a half full years of activity since the \$9.50 wage went into effect.<sup>4</sup> Because of substantial seasonality, the data are presented quarter-by-quarter. The data presented here are on an activity month basis, so Christmas activity will show up primarily in the bars for the fourth quarter.<sup>5</sup>

Figure 2.15 examines total taxable receipts by quarter as reported for the City of Santa Fe. For each quarter, the first black bar indicates the total taxable gross receipts reported as generated during that quarter in 2003, while the dotted bar indicates the receipts reported for 2004 and so on. The \$8.50 minimum wage became effective at the end of June in 2004, so the third quarter of 2004 is the first

**Figure 2.15**  
**City of Santa Fe Total Taxable Gross Receipts**  
**After Adjustment for Food and Medical Deductions, \$000,000s**



<sup>4</sup> One technical note, the data are by quarter. The New Mexico Department of Taxation and Revenue used to reports data by the month that returns are filed, which was typically the month following the activity. However, NM TRD now reports by activity month, so January sales show up in the first quarter. All the data have been adjusted to this activity basis, which is different from how the data were presented in BBER's previous reports.

<sup>5</sup> Previous reports have shown the data on a reporting month basis, i.e., with a one month lag from the time of the activity, so Christmas sales were largely reflected in first quarter receipts.

quarter to reflect the impacts of the implementation. The \$9.50 minimum wage went into effect January 1, 2006, so every quarter in 2006 will reflect the impacts of this increase as well as the cumulative effects from the earlier increase.

Note that since the initial implementation taxable gross receipts have typically risen, at least in nominal terms, in each quarter year-over-year. There are some important exceptions, however. Total taxable receipts fell in the first quarter of 2005 and showed minimal increase in the second quarter of that year even after adjustment for an important tax change that allowed deductions for food sales and certain medical services.<sup>6</sup> Local governments were to be held harmless for this tax change and fully compensated for the revenue loss. However, when first implemented, not all businesses eligible for the deduction accurately reported their receipts. Local governments thus suffered a loss in revenues. The exceptionally strong distribution in the final quarter of 2005 in all likelihood included some carry-over of receipts from prior quarters. Such carry-overs have been a frequent occurrence and have contributed to substantial month-to-month variability in gross receipts tax distributions.<sup>7</sup>

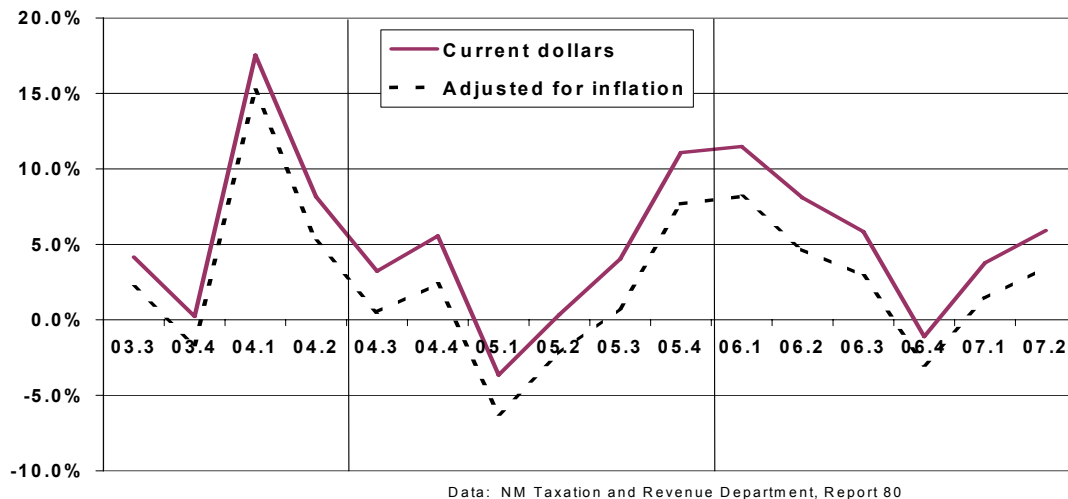
Figure 2.16 presents basically the same data as Figure 2.15 but calculates what the year over year growth in receipts would be after adjustment for inflation. With the exception of 2005, quarters 1 and 2, and 2006, quarter 4 (one year after the exceptionally strong catch-up quarter), the growth rates are positive even after adjustment for inflation. One development that may have positively impacted the City's taxable gross receipts in 2006 and 2007 is the annexation of 2,419 acres surrounding the municipal airport.

**Figure 2.16**  
**City of Santa Fe Total Taxable Gross Receipts, Year-Over-Year Growth**  
**Current Dollars and After Adjustment for Inflation**

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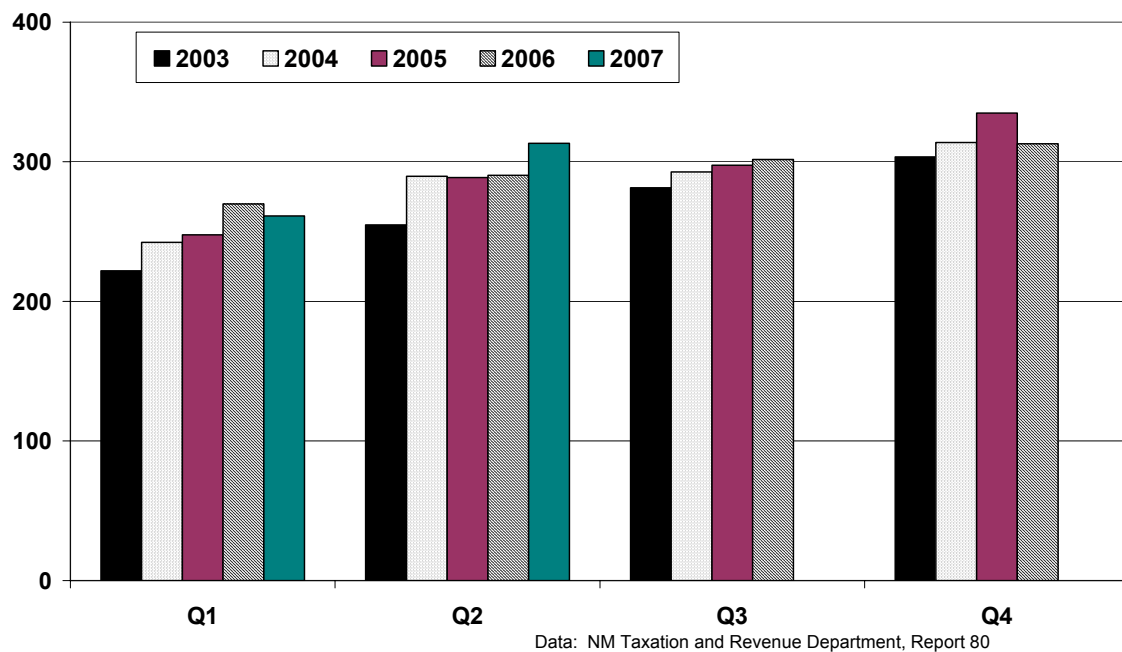
<sup>6</sup> The food and medical deductions went into effect on January 1, 2005. Food stores and other businesses with significant receipts from food sales were able to deduct their food sales from their total receipts in calculating their gross receipts tax liability. While they were no longer subject to tax, the law required them to report their receipts from food so that local governments could be held harmless from the effect of removing food and certain medical expenses from taxation. There were some problems with reporting, at least initially, but otherwise the data have been collected and reported to enable adjustment of the tax base for the food and medical deduction and to align the base with the gross receipts tax revenues actually received.

<sup>7</sup> Carry-overs can arise when tax payments are not able to be processed and credited to taxing jurisdictions during the month when received. This may occur for any number of reasons, e.g., there may be a processing backlog, payments may lack appropriate documentation. Other reasons for wide swings include late filings which are unable to be processed and significant audit adjustments, positive and negative.



At least since 2003, retail trade has accounted for roughly forty percent of total taxable receipts for the City of Santa Fe. What happens with retail obviously has a major impact on the tax revenues received by the City. Figure 2.17 duplicates the above analysis for retail, presenting the adjusted figures as reported by Santa Fe businesses that report their activity as retail.

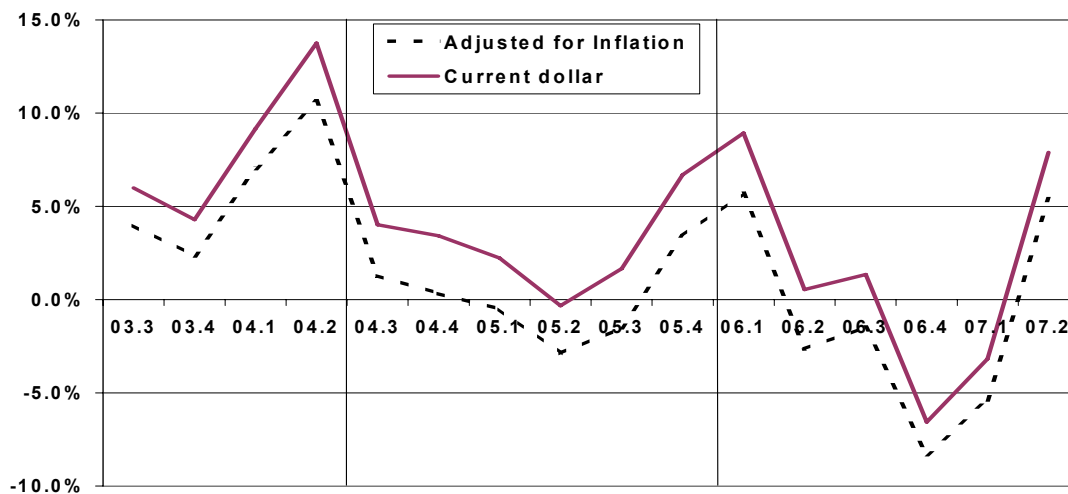
**Figure 2.17**  
**City of Santa Fe Retail Taxable Gross Receipts**  
**After Adjustment for Food and Medical Deductions, \$000,000s**



The performance of retail taxable gross receipts since July 2004 mimics that for total taxable receipts after adjustment for the food and medical deductions: exceptional weakness in the first two quarters of 2005, followed by exceptional strength in the final quarter of that year. However, the first quarter of 2007 is also weak. With these exceptions, current dollar retail receipts have increased in every quarter year over year.

Figure 2.18 presents the quarter-by-quarter growth rates year over year both in current dollars and after adjusting for inflation. There is a noticeable deceleration of growth after the \$8.50 wage goes into effect and again after the first quarter of 2006, when the \$9.50 wage becomes effective. We have explained the weakness in early 2005. The deceleration in 2006 is more difficult to explain, except perhaps the exceptional weakness in the fourth quarter. In real terms, taxable receipts from retail trade declined in every quarter after the first quarter of 2006 and the stellar performance in that quarter was at least in part attributable to the tax related weakness a year earlier. The situation appears to have turned around in the second quarter, when current dollar receipts were up 8% from a year ago.

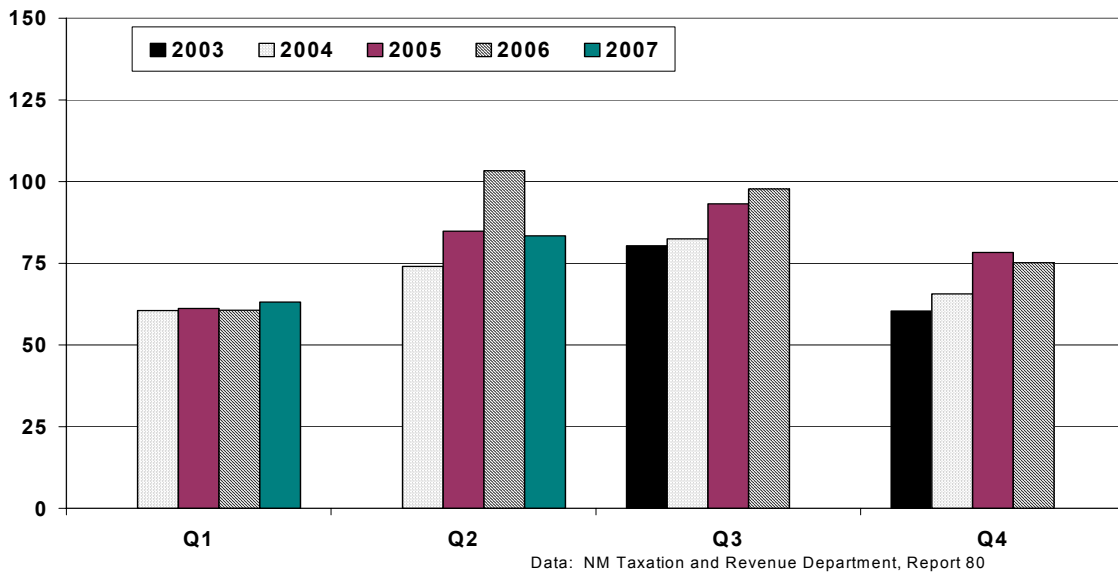
**Figure 2.18**  
**City of Santa Fe Retail Taxable Gross Receipts, Year-Over-Year Growth**  
**Current Dollars and After Adjustment for Inflation**



NM Taxation and Revenue Department, Report 80

There are a couple other sectors that loom large in terms of taxable gross receipts: accommodations and food service, professional, technical and scientific and construction. Medical services would be a fourth but much of this industry operates in the non-profit sector or receives sizeable deductions. A fifth, other services will be discussed below. Figure 2.19 presents an analysis similar to above for the accommodations and food service sector. Unfortunately, the third quarter of 2003 is the first period for which the data are available for this sector, but this does still provide a full year of data prior to implementation.

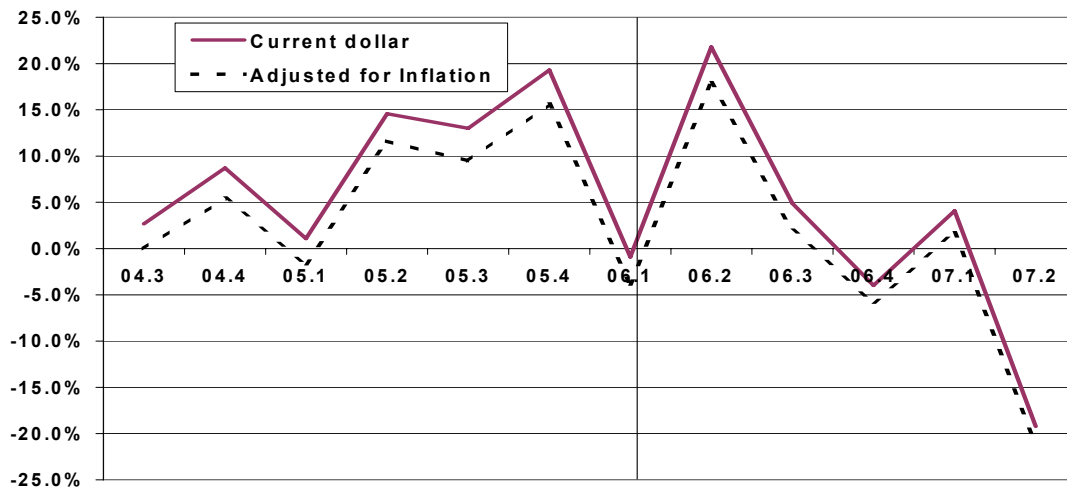
**Figure 2.19**  
**City of Santa Fe Accommodations & Food Service Taxable Gross Receipts**  
**After Adjustment for Food and Medical Deductions, \$000,000s**



The accommodation and food services industry generally evidences increasing taxable gross receipts compared with the same quarter a year ago – at least in nominal, or current dollar, terms. The first quarter shows little or no growth for four years, probably related to a lack of snow, although this was hardly a problem in 2007. The second quarter of 2006 was extremely strong; the second quarter of 2007, very weak even when compared with the second quarter of 2005. The weakness in the fourth quarter of 2006 may be more a reflection of the extraordinary strength of 2005, as discussed above.

Figure 2.20 presents the calculated year-over-year growth rates for accommodations and food service taxable gross receipts in current dollars and after adjusting for inflation. With the exception of the quarters already mentioned the performance is quite strong even after adjusting for inflation. The second quarter of 2007 is obviously cause for concern. Other data bearing on the lodging industry in particular will be discussed in a subsequent section.

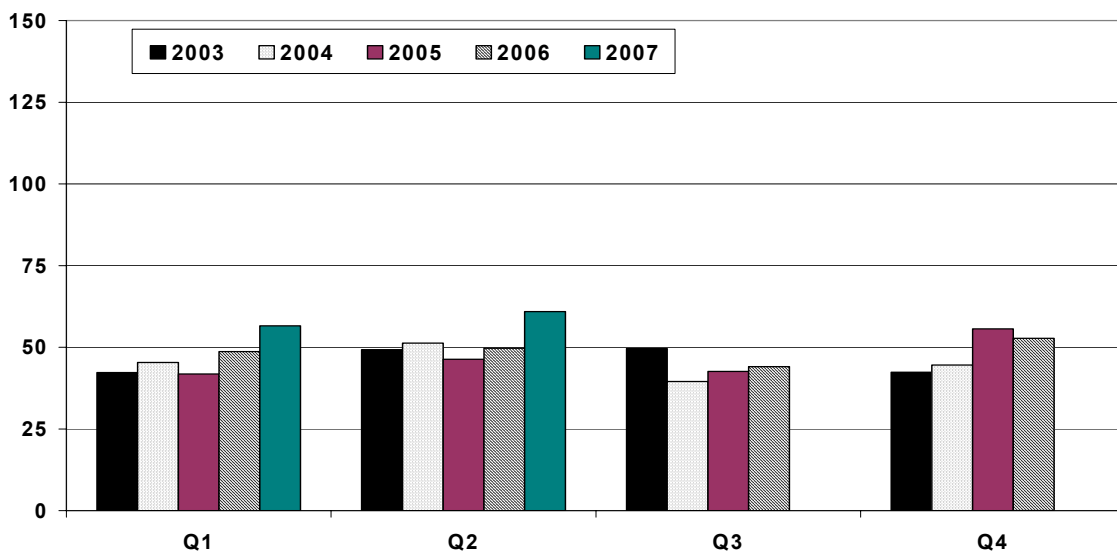
**Figure 2.20**  
**City of Santa Fe Accommodations and Food Service Taxable Gross Receipts**  
**Year-Over-Year Growth, Current Dollars and After Adjustment for Inflation**



Data: NM Taxation and Revenue Department, Report 80

The data on professional, scientific and technical services are given in Figure 2.21. For sake of comparison, the scale on Figure 2.21 and on the graphs which follow are all identical with that for accommodations and food service. The performance even in current dollar terms is mixed, but again, and even though the tax change should have no effect, there is weakness in the first and second quarters of 2005 followed by a very strong fourth quarter in the same year. The other aberration is the third quarter

**Figure 2.21**  
**City of Santa Fe Professional and Technical Services Taxable Gross Receipts**  
**\$000,000s**

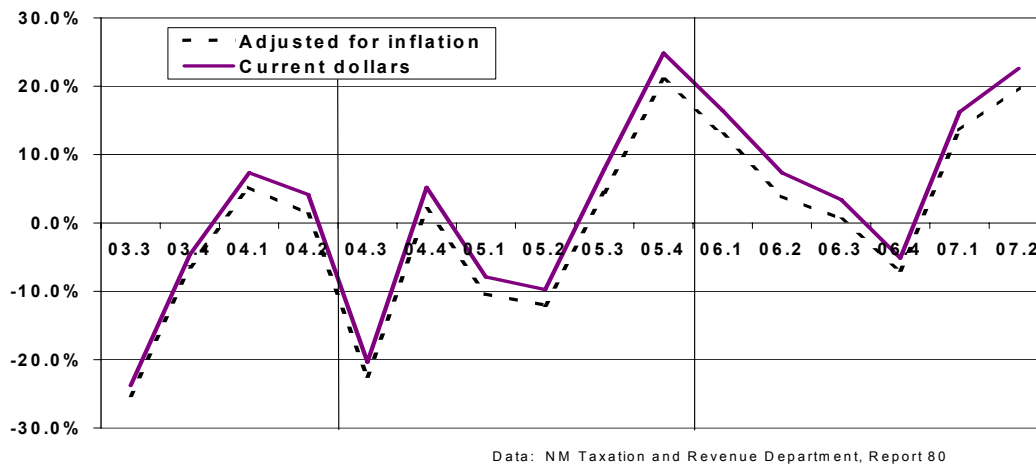


Data: NM Taxation and Revenue Department, Report 80

2003, which is exceptionally strong. Otherwise and at least in current dollars, there are year over year increases in taxable receipts.

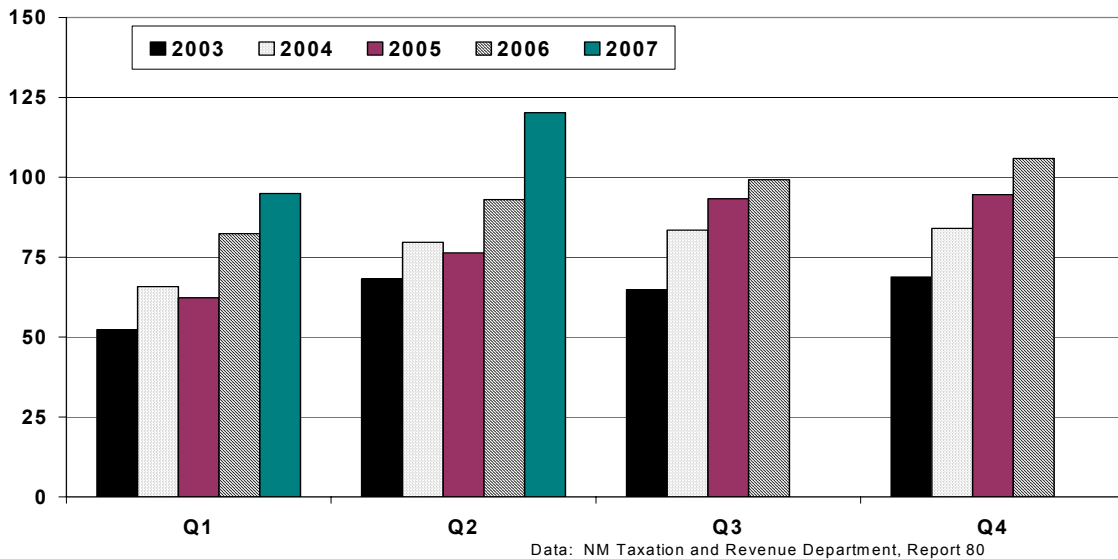
Figure 2.22 reports the year-over-year growth rates after adjustment for inflation as well as in current dollars. The poor performance in the third quarter of 2003 reflects exceptionally strong growth a year earlier. Recent performance has generally been quiet strong.

**Figure 2.22**  
**City of Santa Fe Professional and Technical Services Taxable Gross Receipts**  
**Year-Over-Year Growth, Current Dollars and After Adjustment for Inflation**

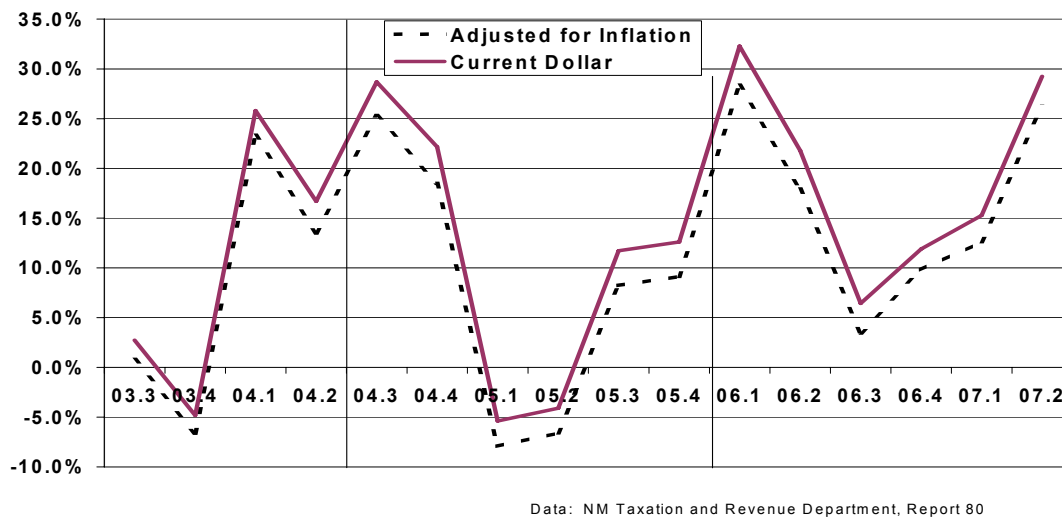


The construction data are presented in Figure 2.23. Since July 1, 2004 and with the exception of the first and second quarters of 2005, taxable gross receipts from construction have shown year-over-year increases in every quarter. This is extraordinary performance for this sector, which elsewhere has felt the effects of the housing slump. Unknown is the extent to which the strong performance recently may be affected by the large annexation in 2006. As indicated in Figure 2.24, the strong results hold up even after adjustment for inflation.

**Figure 2.23**  
**City of Santa Fe Construction Taxable Gross Receipts, \$000,000s**



**Figure 2.24**  
**City of Santa Fe Construction Taxable Gross Receipts Year-Over-Year Growth, Current Dollars and After Adjustment for Inflation**

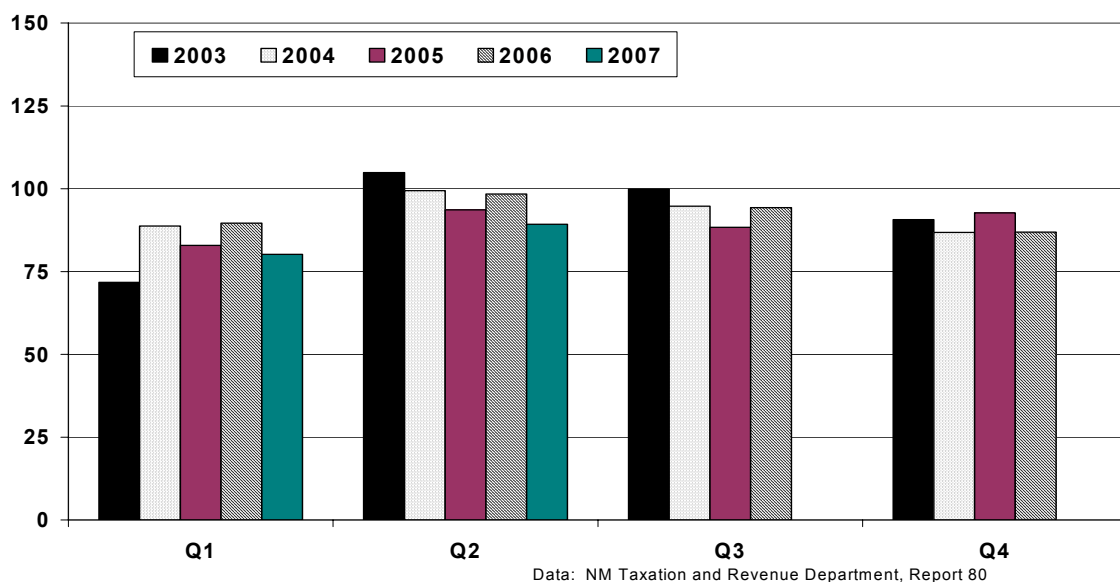


In the late 1990's the federal government agencies that provided economic statistics began implanting a change in classification system from the Standard Industrial Classification system (SIC) to the North American Industry Classification System (NAICS). The major conversion took place in 2001, when the Department of Labor and the Bureau of Economic Analysis both began providing their data in NAICS. State agencies, like the NMTRD, have also recently made the conversion. The change to a completely new and conceptually different industrial classification system has not been easy. In TRD's case, the conversion has produced greater detail,



which is welcome, but at a price. Lost is the ability to make meaningful comparisons over time, since all historical data are in SIC. Also lost, however, has been the ability to track performance by even fairly aggregated industries, as more and more receipts were lumped into two categories, “unclassified” and “other services.” TRD made major efforts to classify the “unclassified” back to the beginning of 2004. Taxable gross receipts under “unclassified” for Santa Fe are now under \$2 million per quarter. The results for “other services” are presented in Figure 2.23 below, using the same scale as the last four graphs. This category now accounts for some 11% of total taxable gross receipts. “Other services” is a legitimate NAICS industry that includes a variety of personal and miscellaneous services. The 2002 Economic Census estimated total receipts for this industry in Santa Fe County at \$182.7 million. City of Santa Fe taxable receipts for 2003 are almost two times this amount -- \$367 million. Clearly, there are receipts reported for this industry that are not NAICS “other services.” Much more than unclassified, other services has become a dumping ground for data when the appropriate industry is not known or when the reporting business is unwilling to take the trouble to find the appropriate code that does describe what they do. With so much activity going into this miscellaneous category, it is difficult to say with certainty how particular sectors, like retail, accommodations and food service, and professional scientific and technical services have performed over time. This does not affect the overall results; it does make it very difficult to locate where the problems may be and clearly limits the inferences one might make about the impacts of the living wage, if any, on the City’s gross receipts tax revenues.

**Figure 2.25**  
**City of Santa Fe “Other Services” Taxable Gross Receipts**  
**After Adjustment for Food and Medical Deductions, \$000,000s**



As Figure 2.25 indicates, the amounts mistakenly classified under “other services” are still enormous. The fact that these seem to be declining over time is problematic in terms of the inferences that may be drawn for other sectors, particularly individual

service sector industries. For example, how much of the growth in professional and business services is due not to increased activity but to a more accurate assignment of industry classification?

To this point, the analysis has only considered the changes over time in the City's taxable gross receipts. The data exist, however, to make comparisons both with all areas outside the City limits and with those areas that are not covered by other taxing jurisdictions. Figure 2.26 makes the comparison. The data are indexed to the values as of the third quarter of 2004, permitting a view of the relative growth in the tax base across the three areas since the living wage first went into effect. It is interesting that the indices for the three geographies converge in the first quarter of 2006, the first quarter after implementation of the \$9.50 minimum wage but diverge after that, with the City evidencing generally a somewhat slower growth path. Historically, there has been much month-to-month and even quarter-to-quarter volatility in this revenue source but this trend bears watching

**Figure 2.26**  
**Growth in Total Taxable Gross Receipts, City of Santa Fe, Santa Fe County**  
**Outside the City Limits, Remainder of Santa Fe County**  
**Figures Indexed to the Values as of the Third Quarter of 2004**

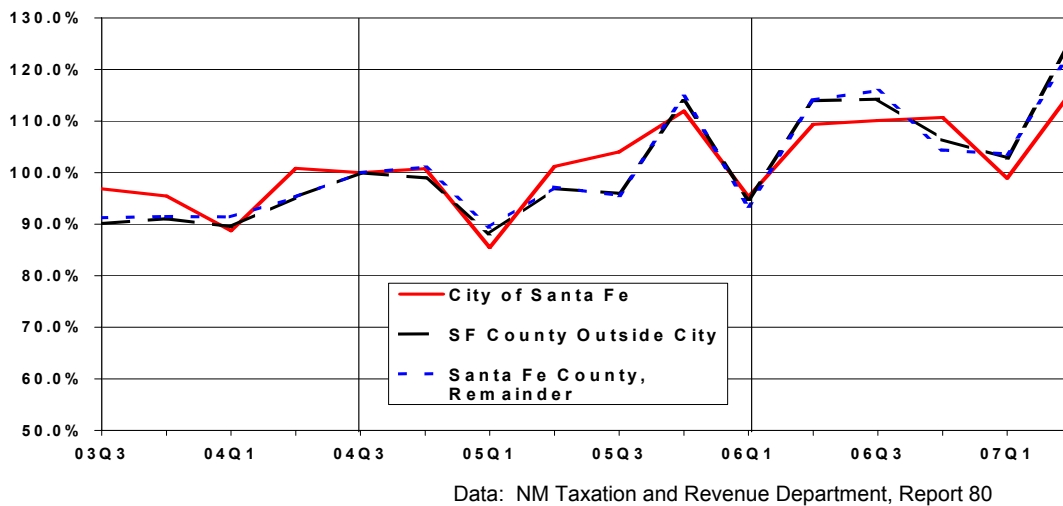
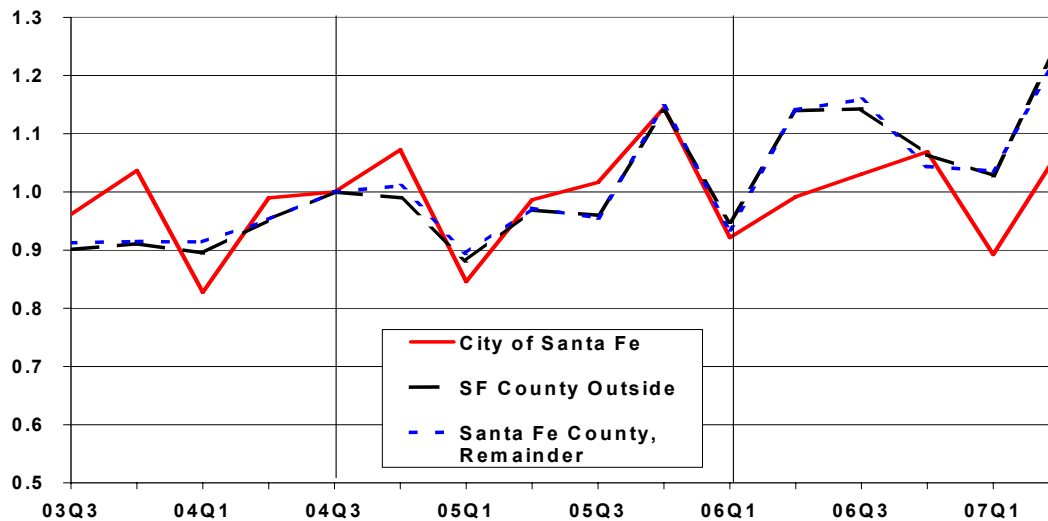


Figure 2.27 replicates the above analysis for the all important retail sector. Once again, the divergence, in this case more pronounced, occurs after the \$9.50 wage goes into effect.

Figure 2.28 does the same for professional and technical services. In the case of this industry, there is very little activity outside the City limits, so the volatility quarter to quarter is much more pronounced. The graph suggests that the City may well have lost activity to outside areas prior to the initial implementation of the living wage. However, in terms of growth in taxable gross receipts since implementation, the City has generally kept up with the outlying areas.

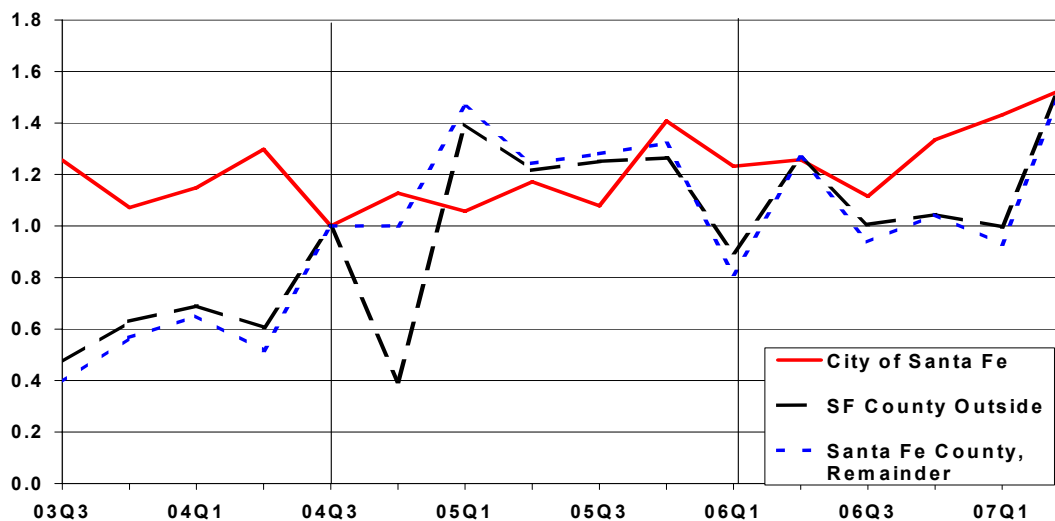
The next section examines construction in some detail, including gross receipts data.

**Figure 2.27**  
**Growth in Retail Taxable Gross Receipts, City of Santa Fe, Santa Fe County**  
**Outside the City Limits, Remainder of Santa Fe County**  
**Figures Indexed to the Values as of the Third Quarter of 2004**



Data: NM Taxation and Revenue Department, Report 80

**Figure 2.28**  
**Growth in Professional and Technical Taxable Gross Receipts**  
**City of Santa Fe, Santa Fe County Outside, Remainder of Santa Fe County**  
**Figures Indexed to the Values as of the Third Quarter of 2004**



Data: NM Taxation and Revenue Department, Report 80

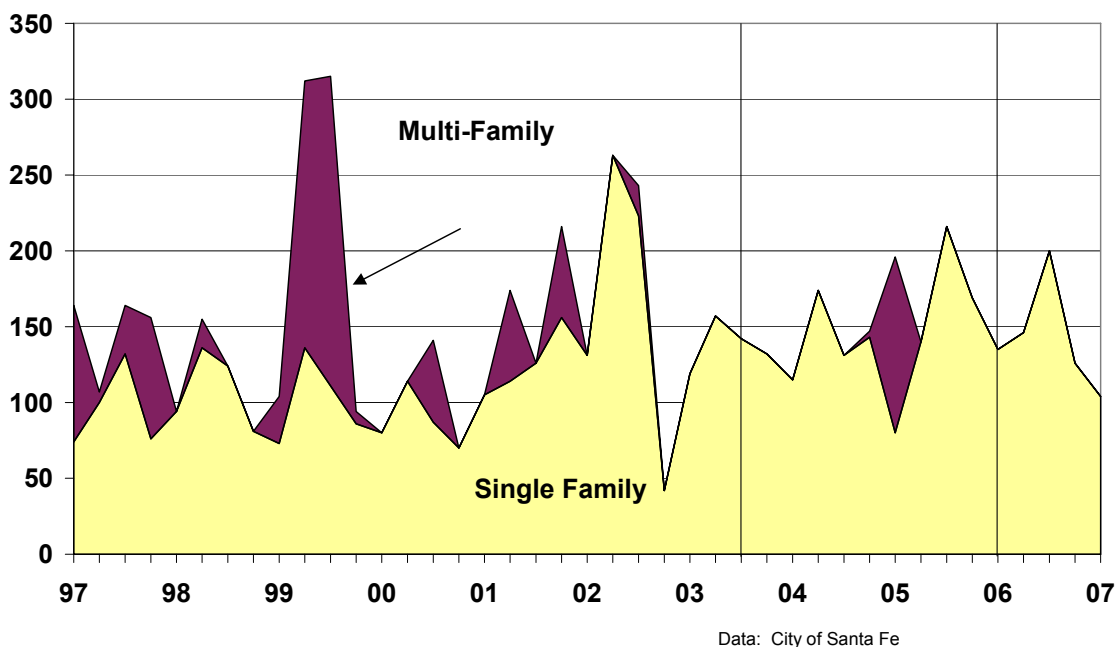
## CONSTRUCTION INDICATORS

As noted in the previous section on employment, employment in the construction industry for all of Santa Fe County was down from a year ago for the four quarters immediately after the \$8.50 living wage went into effect. Since then, however, this

sector has had relatively strong employment growth. The performance of Santa Fe County in this regard is out-of-sink with that for the state as a whole, for the Albuquerque MSA, the Las Cruces MSA and the Farmington MSA, where construction boomed throughout 2004-05, indeed through the first half of 2006, after which growth slowed sharply, turning negative in Albuquerque and the State.

**Housing.** The City of Santa Fe is a permit issuing jurisdiction. Figure 2.29 charts the total number of housing units permitted, with a breakout of single and multi-family housing, by quarter from 1997 through the first quarter of 2007. As in other charts, the vertical lines indicate respectively the implementation of the \$8.50 and \$9.50 minimum wage. As the graph indicates, the total number of housing units permitted has increased from the period before July 1, 2004. The total number of housing units permitted in 2003 was 550; this increased to 567 in 2004 and to 716 in 2005, when 116 units of multi-family housing were permitted on top of 600 single family units. 607 units, all single family, were permitted in 2006.

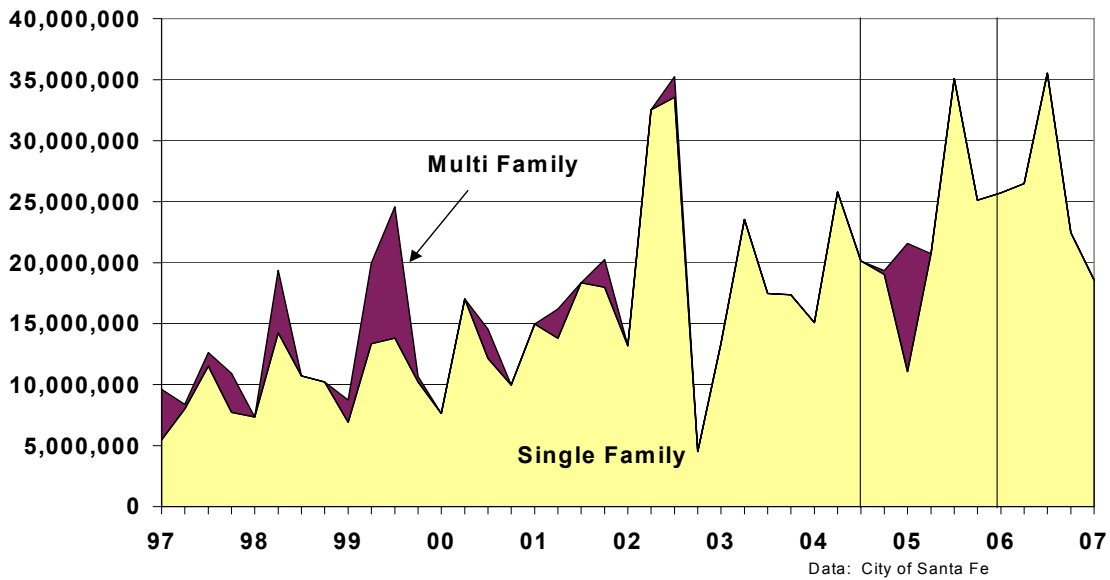
**Figure 2.29**  
**City of Santa Fe Housing Units Permitted by Quarter, 1997 Q1 Through 2007 Q1**



The City of Santa Fe also collects data on the value of housing permitted. Figure 2.30 shows the total value of housing permitted since 1997. The total value of single family units permitted during 2003 was down 14% from 2002, but the value increased by 12% in 2004, by 15% in 2005 and by 20% in 2006.

Housing permitted within the City limits exhibits strong growth over a year ago. BBER does not have comparable data on areas outside the City limits. However,

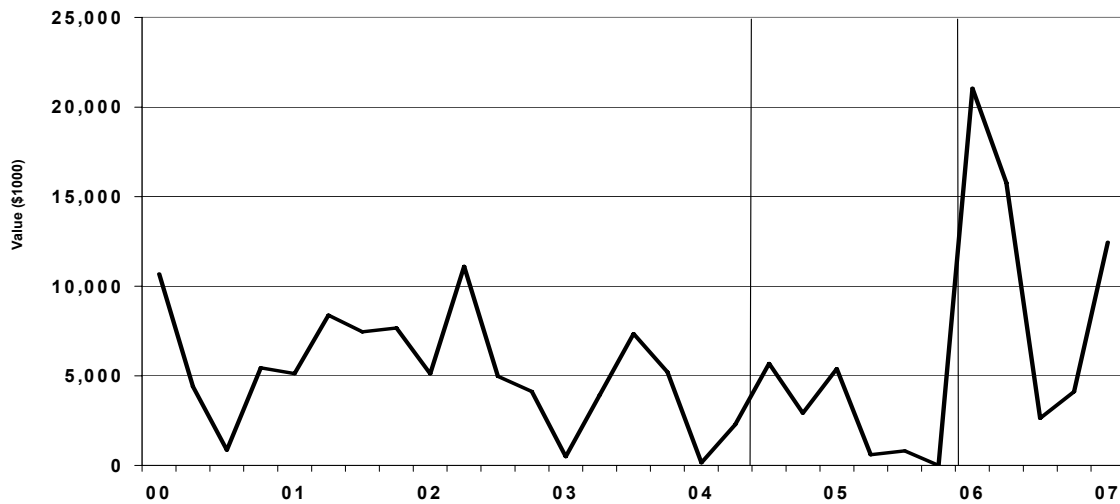
**Figure 2.30**  
**City of Santa Fe Value of Housing Units Permitted**  
**by Quarter, 1997 Q1 Through 2007 Q1**



FW Dodge tracks construction contract awards by county, but the county-wide award data, which are supposed to include alterations and additions as well as new construction for areas throughout the county, appear to be incomplete. In many quarters the FW Dodge totals for Santa Fe County are below the totals for new construction in the City of Santa Fe.

**Non-residential construction.** If housing construction has remained strong, or at least has been strong within the City limits, what about non-residential activity? The City of Santa Fe also maintains databases on non-residential construction, most of which is private building activity. Figure 2.31 charts the total value of non-residential construction permitted by quarter since 2000. As elsewhere, the vertical lines indicate when the \$8.50 and \$9.50 living wages went into effect.

**Figure 2.31**  
**City of Santa Fe Total Value of Non-Residential Construction**  
**Permitted Since 2000 (\$000s)**

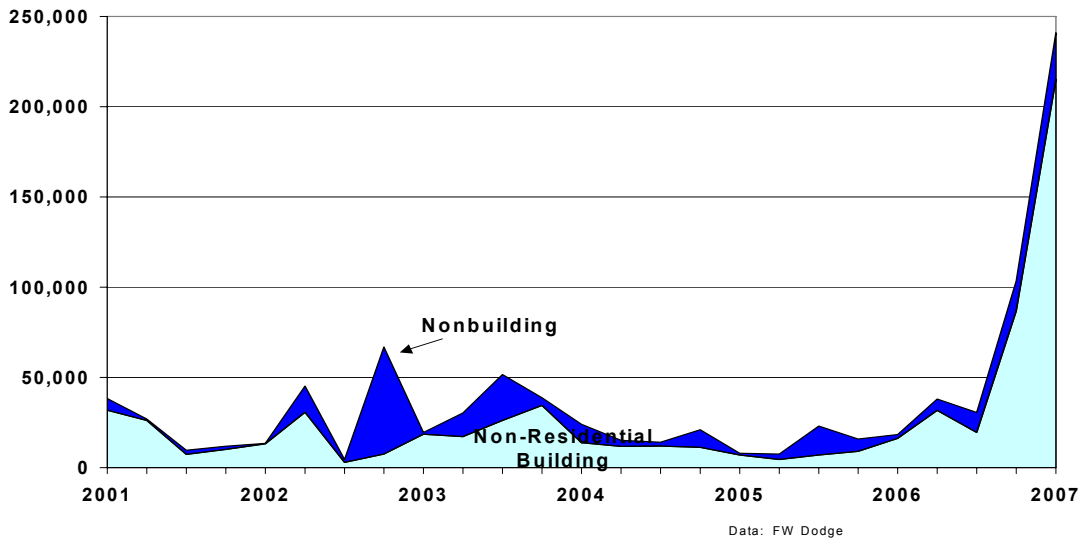


Non-residential construction activity within the City limits fell off a bit after the \$8.50 minimum wage went into effect but, compared with earlier in the decade, has been up considerably since the beginning of 2006.

Figure 2.32 looks at the county-wide FW Dodge award data both for non-residential building contracts and for non-building activity (e.g., roads, water and sewer systems). The data includes both new projects and alterations and additions and should cover public sector activity as well as private sector. The FW Dodge data show a definite deceleration in non-residential construction awards in 2004 and 2005 from earlier in the decade but sizeable awards since the beginning of 2006. The big award picked up in the first quarter of 2007 is a hotel, but the location is unspecified. A couple comments should be made. As noted above, the award data is sometimes incomplete, although the non-residential series appear to be more reliable. The data are typically subject to revision although revisions are generally small.<sup>8</sup> By nature, non-residential activity, and particularly non-building awards, are “lumpy” and can be dominated by one or two large projects that come through the pipeline. The construction activity which follows an award may take many months to complete.

<sup>8</sup> FW Dodge completely missed the \$2.3 billion Intel expansion in 1993-95.

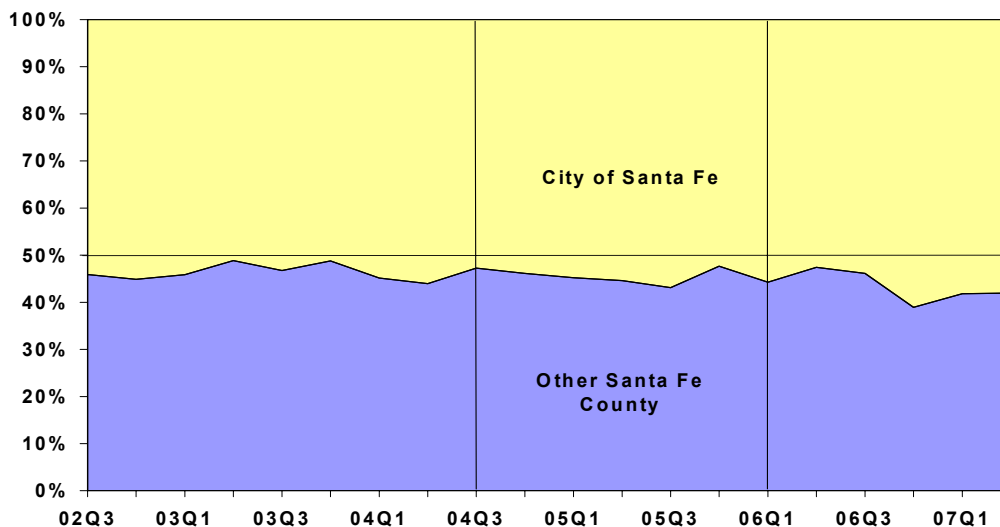
**Figure 2.32**  
**Santa Fe County Non-Residential Construction Contract Awards (\$000s)**



If award and building permit data are at the front end of construction, gross receipts taxes are owed on the revenues received by construction contractors as the construction is taking place. In the previous section we presented gross receipts tax data for the construction sector by quarter. By this measure, construction activity within the City limits has done extraordinarily well over the past few quarters. Overall county construction activity as measured by construction taxable gross receipts generally follows a pattern similar to that observed within the City limits.

Figure 2.33 looks at how the City's share of total County taxable gross receipts from construction has changed over time. As in other graphs, the effective dates of the first and second increases in the City's living wage are indicated by two vertical lines. We have also put in a horizontal line to indicate where the City's share of the total would be 50%. Note that the City's share has been roughly constant until the past year or so, when it increased noticeably. True, some of the projects may have been started prior to the implementation of the \$9.50 minimum wage on January 1, 2006. It is also possible that some of the projects now impacting City receipts were previously located outside the City limits. Nevertheless, there is nothing here to suggest disinvestment within the City limits; indeed, quite the opposite could be the case.

**Figure 2.33**  
**City of Santa Fe Share of Total County Taxable Gross Receipts**  
**from Construction Activity**



### **SANTA FE HOUSING TRENDS, 2003 Q1 - 2007 Q2**

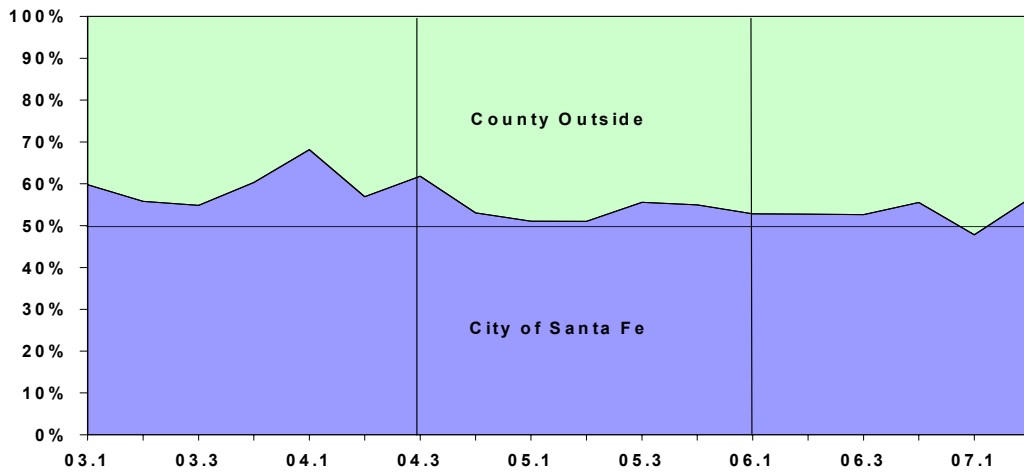
This analysis first describes housing trends from data provided by the Santa Fe Association of Realtors. The housing data include only activity represented in the multiple listing service (MLS) and therefore exclude housing that is not listed, including new housing and affordable housing built by the City of Santa Fe. Presented here is a description of housing trends in that portion of Santa Fe County included in the MLS during the four and one-half year period beginning in 2003 and ending in the second quarter of 2007. This area excludes the southern portion of the County, e.g., Edgewood. Following the MLS data are brief description of housing development emphasizing relatively affordable housing in Southwest Santa Fe.

#### **Single-Family Detached Housing**

During the four and one-half year period 7,938 single-family housing units were sold in the area, almost evenly divided between activity in the City of Santa Fe and outside the City. Within the City, the Southwest quadrant accounted for over half, or 2,068 units, of the number of homes sold while the Southeast quadrant and the combined Northeast and Northwest quadrants each provided about one-fourth of the activity, with 924 and 976 units, respectively. (Adjustments to the data were made so that houses sold in the annexed area near the airport are always treated as though they were within the City limits.) As Figure 2.34 illustrates, the City's share of the total has decreased slightly since the third quarter of 2004, the same quarter as when the \$8.50 wage went into effect. It is by no means clear that the LWO was a major causal factor in this subtle change, and it is clear that many people have continued purchasing houses within the City limits.



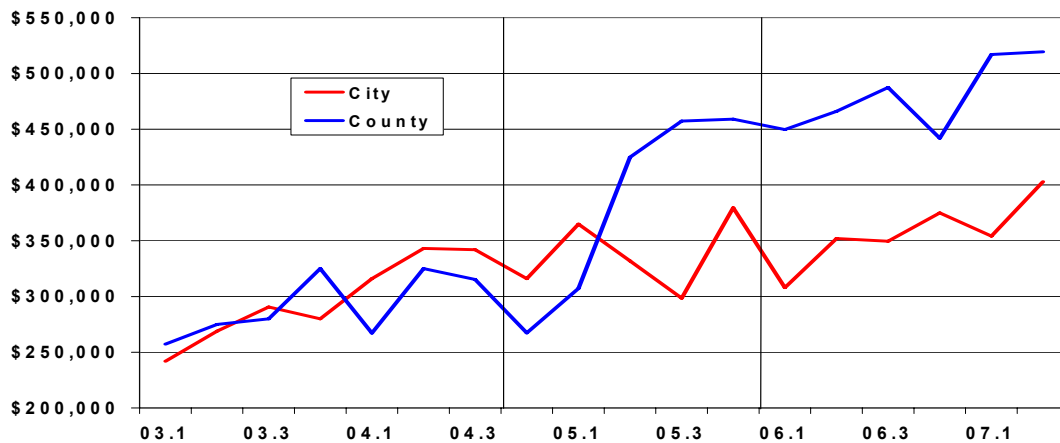
**Figure 2.34**  
**Number of Single-Family Homes Sold Within and Outside the City of Santa Fe**



Data: Santa Fe Association of Realtors

If people continued to buy homes within the City limits, what happened to the prices paid for those homes? During the period 2003 Q1 to 2007 Q2, the median price of a single family home in the Santa Fe area jumped 80%, from \$250,000 to \$450,000. Within the City limits, the increase was 66.5%, from \$242,000 to \$403,000. Outside the City, the median sales price of single-family homes more than doubled, from \$257,000 to \$520,000. Figure 2.35 tells the story. However, both sets of numbers -- and both lines -- are impacted by the City's annexation of lands near the airport, where many units of housing were sold and where the housing was much less expensive. In this case, because the calculations involve medians and BBER does not have access to the individual sales data, the City and County outside medians

**Figure 2.35**  
**Median Price of Single-Family Homes Sold Within and Outside the City of Santa Fe**



Data: Santa Fe Association of Realtors

could not be adjusted. The realtors association adjusted their median calculations back to 2005. The annexation clearly pulled down the City median (and pushed up the County) after early 2005 and helps to explain much, if not all, of the divergence between the two curves that dates from this period. Unfortunately, we do not have the data to quantify the impact of this change over time. However, comparing the original estimates for the final three quarters of 2005 gives some idea of the magnitude of the changes caused by the annexation. In the City's case, the annexation brought down the median by \$61 thousand in the second quarter, while the median outside increased by \$45 thousand. In the third quarter, the annexation brought down the City by \$66 thousand and increased the outside area by \$91 thousand; in the fourth quarter, the City came down by \$91 thousand, while the outside area increase by \$ 67 thousand. Indeed, the City median would have been higher than the outside area in each of the three quarters. From this admittedly small sample of quarters, it seems that discrepancy is an artifact of the data.

### **Other Types of Housing**

Limited data for other types of housing, including condominiums/townhomes and mobile/manufactured homes, are available in the MLS data. Most of the condo/townhomes are in the City of Santa Fe. There were 2,751 units sold during the four and a half years, with 2,443 of these in the City. The median sales price increased in the Santa Fe area by 24%, or \$60,000, passing \$300,000 by the first quarter of 2007. Mobile and manufactured home sales were relatively low, with just 221 sold units during the four and one half years. The median sales price increased a moderate 30% and was \$190,000 in the first quarter of 2007.

### **Housing Affordability**

The Santa Fe Association of Realtors does not publish annual figures on median sale price. However, averaging the four quarters of 2006 yields an estimate of the median sales price of \$346,000 for a single-family detached home in the City of Santa Fe and \$461,000 outside the City.<sup>9</sup> These high prices compare to \$221,000 in the U.S. Yet median household income was \$46,081 in the City compared to \$47,167 in the U.S. This amounts to a Housing Affordability Index of 0.13 in Santa Fe compared to 0.21 in the nation.<sup>10</sup> Moreover, the housing affordability index has dropped from 0.16 in 2003, meaning that Santa Fe housing is getting even pricier. Given that housing prices in many parts of the country went up very fast during the recent housing boom, it would be difficult to attribute the price increases to the living wage.<sup>11</sup>

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<sup>9</sup> The Santa Fe Association of Realtors cautions that the MLS medians may over-estimate actual prices because they do not reflect sales of new affordable homes or sales that are not part of the MLS.

<sup>10</sup> This index is calculated by dividing an area's median household income by the median housing price. Higher ratios indicate greater affordability. Discussion is based on City of Santa Fe, Planning and Land Use Department, *SF Trends 2007*, p. 7.

<sup>11</sup> Housing price appreciation reflects demand and supply. The Santa Fe real estate market has continued to be very strong. According to the Office of Federal Housing Enterprise Oversight (OFHEO), in the first quarter of 2007 the Santa Fe MSA ranked 37<sup>th</sup> among the MSAs in terms of the percentage

Clearly housing affordability is an important issue in Santa Fe. Incomes have not kept up with rising home prices as the gap has been increasing between what households can afford to pay and market demand. The City of Santa Fe has multiple programs in place to provide affordable housing, from financial assistance programs for consumers, to the development of affordable housing, to fee waivers and water for builders. The City has also implemented a zoning requirement that 30% of new residential development be set aside for affordable housing. These programs target those households earning less than 100 percent of area median income.

Competition between first-time buyers and between trade-up buyers is increasing in the City due to high demand and a decline in available properties priced under \$300,000. Many households must leave the City to find housing they can afford. A large number of people commute to jobs in Santa Fe, with about half of them former residents of Santa Fe. Renters, too, have seen their incomes lag increasing rents with rental units becoming less affordable. The rental market is limited and has low vacancy rates. Waiting lists for public housing and Section 8 voucher programs are one to two years.<sup>12</sup>

## HOSPITALITY INDUSTRY INDICATORS

The data presented under employment above indicate strong growth year-over-year in accommodations and food service employment for four quarters beginning the second quarter of 2004, when growth was 2.4%. In the second quarter of 2005, growth slowed to 0.7%, and this was followed by three quarters where growth was flat year-over-year or negative. As discussed in the introduction to the employment section, it is common to see such a slowdown after four quarters of strong growth. Employment growth picked up again in the second quarter of 2006, after the \$9.50 wage went into effect. The gross receipts series on this NAICS industry do not go back far enough to provide a view of activity prior to the quarter when the living wage was first implemented, but they show strong growth in the quarters following the initial implementation, indeed generally until the fourth quarter of 2006. Results have been disappointing since then.

Figure 2.34 below charts the data on the performance of the City's lodgers tax from the 4% tax. The graph dramatically shows the fall-off in lodgers tax receipts after 9-11. Tourism activity throughout the US was hit hard by this horrific event and Santa Fe was no exception. However, there is clear evidence of recovery beginning in early 2005. This recent experience is in marked contrast with the performance earlier in the decade and reflects a turn-around the tourism industry that is evident in the national data as well.

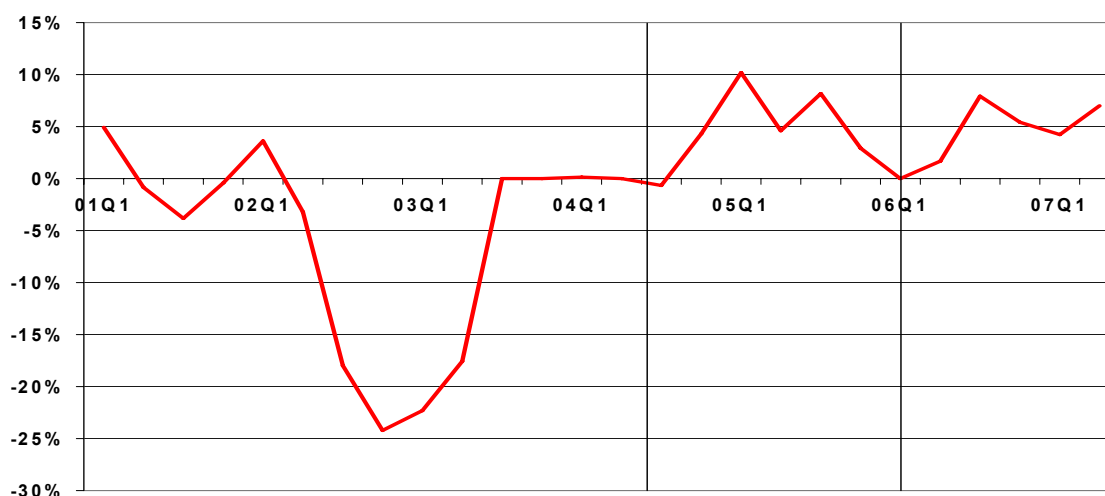
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appreciation in housing prices from a year ago. The quarterly increase was 9.05%. The five-year increase for Santa Fe was 60.09%. The OFHEO index measures the change in prices for the same houses over time, as they come up for sale or refinances, so it provides more of an apples to apples comparison.

<sup>12</sup> *City of Santa Fe Housing Needs Assessment*, May 2007

Table 2.4 presents the actual data on the City's lodgers tax revenues from the 4% tax since the living wage was first implemented.

**Figure 2.34**  
**Growth in City of Santa Fe Revenues from 4% Lodgers Tax**  
**Percentage Growth Over Same Quarter Year Ago**



**Table 2.4**  
**City of Santa Fe Quarterly Revenues from 4% Lodgers Tax**  
**and Calculated Year-Over-Year Growth Rates**  
**Since Implementation of the Living Wage**

	04Q3	04Q4	05Q1	05Q2	05Q3	05Q4	06Q1	06Q2	06Q3	06Q4	07Q1	07Q2
Revenues (\$000s)	1,481	1,165	757	1,070	1,602	1,199	757	1,088	1,729	1,264	789	1,164
% Chg Yr Ago	-0.67%	4.30%	10.19%	4.59%	8.17%	2.92%	0%	1.68%	7.93%	5.42%	4.23%	6.99%

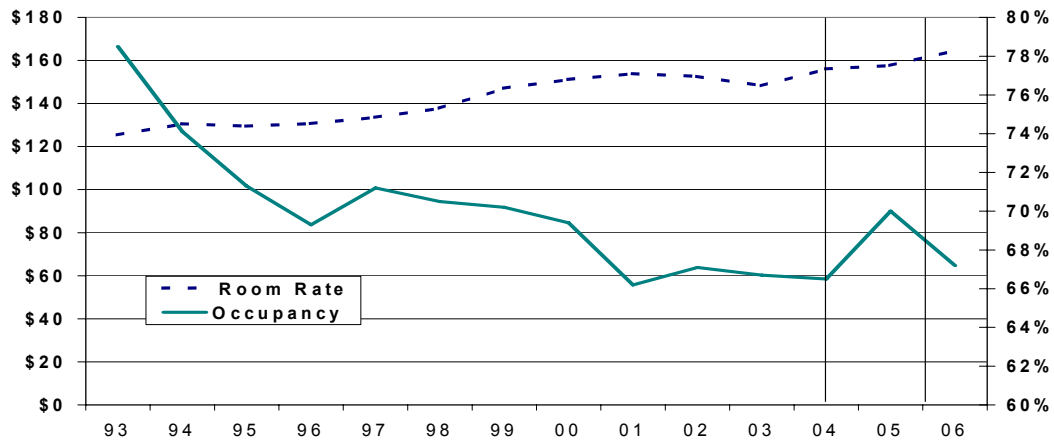
*City of Santa Fe, Lodgers Cash Report for the Month of June 2007*

The lodgers tax performance over the past year or so provides another reason for questioning the completeness of the gross receipts tax data on accommodations and food service. The turn-around in lodgers tax in Santa Fe seems to be one local manifestation of the national resurgence of the travel and tourism industry. The recovery of this industry in Santa Fe is happening despite the \$9.50 minimum wage.

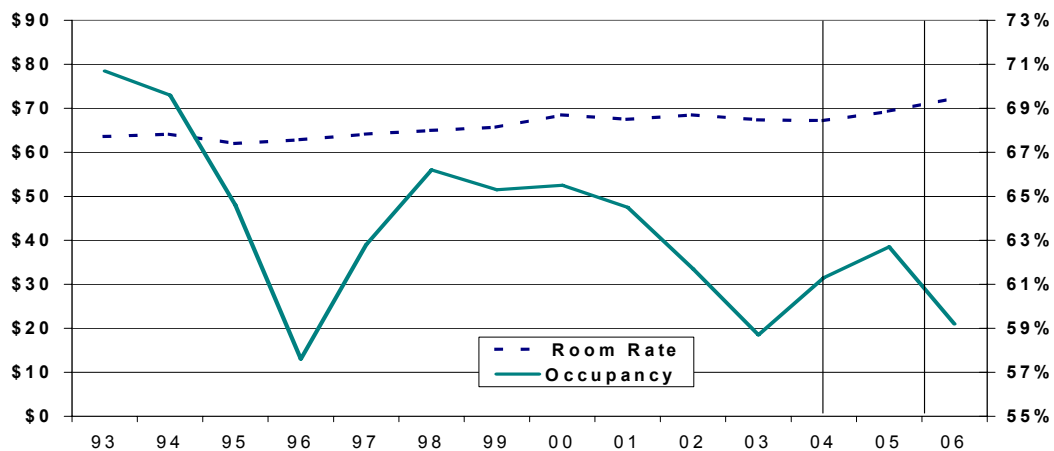
One of the limitations of lodgers tax data is the lodgers tax revenues are the product of the tax times the average room price times the room nights purchased. Assuming a 4% tax, lodgers revenues may go up because the average room rate increases and/or the number of rooms rented increase. Data on hotel average room rates and occupancy rates are collected from a voluntary survey conducted monthly as a basis for the *Rocky Mountain Lodging Report*. Figure 2.30 graphs the annual average data on both room prices and occupancy rates from this report for Santa Fe downtown hotels since 1993. Figure 2.31 does the same for those hotels listed as being outside the downtown area on Cerrillos Road. The graphs are interesting. The trends are similar except that the downtown hotels are much more expensive and

seem to have been able to increase prices much more than the “budget” properties outside the downtown area.

**Figure 2.30**  
**City of Santa Fe Downtown Lodging**  
**Average Room Prices and Occupancy Rates**



**Figure 2.31**  
**City of Santa Fe Cerrillos Road Lodging**  
**Average Room Prices and Occupancy Rates**



Data: Rocky Mountain Lodging Report

Unfortunately, occupancy rate is the only measure available on quantity of lodging purchased. Ideally, one would like to know the average number of room nights per month or per quarter but these figures are not shared by the lodging establishments. BBER has been trying to obtain a historical series on the number of rooms in lodging establishments so as to better understand the trends in occupancy rates.

## CONCLUSION

This chapter has 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 with the alleviation of poverty

According to the Current Employment Survey (CES) nonfarm employment series, employment growth (year over year) the Santa Fe MSA, 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 the current year, with growth of 2.3% in the first quarter and 2.1% in the second.

This chapter starts with 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 many 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. 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 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 noting, 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 figures on the total number of rooms available for rent. BBER has been as yet unsuccessful in efforts to obtain such data.

## CHAPTER 3

### COST OF LIVING IN SANTA FE

#### COST OF LIVING CHANGES

**Table 3.1** shows an index of the cost of living in the City of Santa Fe for July 2003, about one year before the minimum wage was set at \$8.50 per hour; November 2005, 16 months after the initial increase and just before the second increase to \$9.50 per hour; and at the time of this study, just over a year and a half after the second increase. Index values for July 2003 are, by definition, set at 100; other index values are relative to this initial value. The table also shows the rate of increase in the cost of living in Santa Fe for the two periods, adjusted as a 12-month average annual value.

**Table 3.1**  
**Cost of Living in the City of Santa Fe, July 2003 – August 2007.**

	Index (July 2003 = 100)			Average Annual change (%)	
	Jul-03	Nov-05	Aug-07	July 03- Nov 05	Nov 05- Aug 07
Groceries	100	120.7	121.1	8.4%	0.2%
Housing	100	133.3	151.7	13.1%	7.7%
Utilities	100	111.3	108.4	4.7%	-1.5%
Transportation	100	143.7	152.0	16.8%	3.3%
Health Care	100	100.0	122.8	0.0%	12.4%
Misc. Goods and Services	100	103.1	124.7	1.3%	11.5%
<b>TOTAL</b>	<b>100</b>	<b>119.1</b>	<b>132.7</b>	<b>7.8%</b>	<b>6.4%</b>

Source: UNM-BBER, 2003, 2005 and 2007.

These data indicate that prices in Santa Fe increased by an annual average rate of 7.8 percent during the first period and by 6.4 percent during the second period. During the first period, the overall increase was driven largely by a very sharp increase in transportation costs, due entirely to an increase in the cost of gasoline, from \$1.59 per gallon (regular unleaded) in July 2003 to \$2.79 per gallon in November 2005. This increase was part of a national pattern. The overall increase was also associated with an increase in housing costs, again reflecting national patterns. The principal components driving up housing costs were a rise in the median housing value (of those sold during the research period) from \$275,593 in July 2003 to 356,179 in November 2005, and an increase in mortgage lending rates from an average of 5.78 percent to 6.36 percent (30 year fixed rate) over the same period<sup>13</sup>. It is significant that cost of rental housing – more commonly used by low

<sup>13</sup> BBER has revised the methodology used to estimate housing costs from the previous study. The current estimates are based on data provided by the Office of the Federal Housing Enterprise Oversight (OFHEO). The use of OFHEO data ensures greater representativeness of sample and



income workers – fell by an average annual rate of 5.4 percent during the first period, somewhat attenuating the overall increase in housing costs.

During the second period, from November 2005 to August 2007, the structure of price increases shifted significantly. The rate of increase of housing and transportation costs declined, as did grocery costs, while the rate of increase of health care and miscellaneous goods and services accelerated. Again, transportation and housing costs were driven largely by national patterns. Healthcare costs, partly reflecting national patterns, were driven up primarily by the increasing costs of professional services, including doctors and dentists. Increases in the miscellaneous category affected a number of goods and services, including both goods for which prices are nationally determined (clothing, movie admission, beauty products) and services that are more likely to be determined locally (appliance repair, dry cleaning, fast food restaurants and veterinary care).

The methodology used in this study allow BBER to compare increases in the cost of living in Santa Fe with similar trends in other parts of the country, though care should be taken when assessing narrowly defined categories<sup>14</sup>. Table 3.2 shows indices of the cost of living in the City of Santa Fe relative to that of the hundreds of communities for which ACCRA data is collected. Note, first, that from the initial assessment in July 2003, the cost of living in Santa Fe was nearly 14 percent higher than the nationwide average, due mainly to the high cost of homeownership and, to a lesser extent, the high cost of doctor's services. During the first period, ending November 2005 and roughly corresponding to the first increase in the minimum wage to \$8.50 per hour, the relative cost of living in Santa Fe increased by two and half percentage points, to 116.2 percent of the national average. The increase was largely due to higher grocery costs and gasoline prices, where the increase exceeded the national increase by a substantial margin. Conversely, housing costs fell very slightly in relative terms, as housing prices in areas such as California and Florida surged. Finally, the costs of miscellaneous goods and services, where the price

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provides consistency for comparisons with national housing prices. OFHEO data is available online at: <http://www.ofheo.gov/HPI.asp>; a statement of OFHEO methodology is available at [http://www.ofheo.gov/Media/Archive/house/hpi\\_tech.pdf](http://www.ofheo.gov/Media/Archive/house/hpi_tech.pdf).

<sup>14</sup> Comparisons of local costs of living are based on data collected by ACCRA. There are two problems with the use of ACCRA data. First, ACCRA is a largely volunteer service undertaken mostly by local Chambers of Commerce. The volunteer service is not subject to rigorous oversight characteristic of more professional services such as the Bureau of Labor Statistics Consumer Price Index. A comparison of ACCRA indices with the BLS's CPI shows broadly similar trends, but significant variance within particular categories, most notably housing and health care. Second, while the basket of goods and services are comparable for a given sample, the basket has changed over the period under study. These changes can mean a shift from goods that are relatively more costly in local markets to others that are relatively more affordable, or visa versa. Thus, comparisons of costs in Santa Fe relative to national markets over time are particularly problematic. A final note: in this analysis, BBER has replaced ACCRA-based costs of homeownership with OFHEO data, providing greater representativeness and reliability. ACCRA can be found online at: <http://www.coli.org/AboutIndex.asp>

impacts of higher minimum wages are most directly observable, fell modestly relative to national rates.

**Table 3.2**  
**Cost of Living in Santa Fe, Relative to the Cost of Living in**  
**All Urban Areas of the U.S.**

	Index (July 2003 = 100)		
	Jul-03	Nov-05	Aug-07
Groceries	102.1	119.6	118.0
Housing	140.9	139.6	147.0
Utilities	89.3	98.5	73.3
Transportation	109.4	118.0	105.8
Health Care	121.9	111.0	145.5
Misc. Goods and Services	102.4	99.6	106.3
<b>TOTAL</b>	<b>113.7</b>	<b>116.2</b>	<b>118.0</b>

Source: UNM-BBER, 2003, 2005 and 2007; ACCRA, 2003, 2005 and 2007.

During the second period, covering the period to present of the second increase in the minimum wage to \$9.50, the relative cost of living in Santa Fe again rose, though more modestly. The cost of health care was the principal factor driving the increase, due to a sharp increase in the fees of doctors and dentists. Housing costs also contributed to the relative increase, as the prices in more speculative markets began to stabilize and even fall. Finally, miscellaneous goods and services also contributed to the increase in the relative cost of living in Santa Fe. In this category, the relative increase was due largely to services, including veterinary care, appliance repair and dry cleaning. Note, however, that the increase in the relative cost of consumer services in Santa Fe was not across the board; fast food restaurants and beauty salons, for instance, fell in price relative to the national pattern.

## CHAPTER 4

### STATISTICAL ANALYSIS OF EMPLOYMENT IMPACTS

#### INTRODUCTION

The statistical analysis of employment changes builds on a previous study of the employment and wage impacts of the \$8.50 living wage<sup>15</sup>, using a similar methodology results and improving on some definitions and methods of data preparation methods. The study focuses on the changes in employment in Santa Fe City and how they compare to changes in Santa Fe County (less the city) and Albuquerque. . The study is intended to provide the City and Community of Santa Fe with information regarding the impacts of the living wage as they move forward.

The analysis relies heavily on the difference-in-differences method currently favored in minimum wage analysis studies. This measure calculates the average change in employment from the year before to the year after the living wage for all businesses subject to the living wage (at the moment, 25 or more employees) and compares that change to similar measures for groups of businesses not subject to the living wage. In this case the control groups consist of businesses in Santa Fe City with less than 25 employees and businesses in Santa Fe County and Albuquerque of all sizes. The difference-in-differences results are supplemented by a variety of measures over time and within industry in an effort to gain a clearer picture of what the measure indicates and how the economy and community of Santa Fe is responding as a whole. A study of earnings changes will be finished at some point in November.

There is a substantial improvement in this study over the previous studies, in which the location of businesses is determined by latitude and longitude. This allows for a much more complete mapping of businesses inside and outside of Santa Fe City limits. Capitalizing on this, we have extended the analysis to include a comparison of Santa Fe City to the rest of Santa Fe County, whereas the previous study was only able to compare a loose definition of Santa Fe City to Albuquerque. Further, we repeated the analysis of the \$8.50 living wage using this same precise geographic division.

The following sections discuss the data used in the study, methodology, and results, followed by a discussion of the implications of the measures.

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<sup>15</sup> The study consists of two reports: Measuring the Employment Impacts of the Living Wage Ordinance in Santa Fe, NM, and Earnings and Employment: The Effects of the Living Wage Ordinance in Santa Fe, NM.

## DATA

The analysis makes use of the same ES-202 employer data set that was used in the previous study. The data set is comprised of all firms paying unemployment insurance and is compiled by the New Mexico Department of Workforce Solutions. Data is collected on the number of employees receiving pay during the pay period including the 12<sup>th</sup> of each month.

Data begins as quarterly reports, each of which was merged according to the employer ID to create a single file comprising employers from 1996 to 2006. The data includes monthly employment and quarterly total wage bill. Beginning in the third quarter of 2003, the data also includes the latitude and longitude for each business location. The data was geo-coded using latitude and longitude to select those businesses located in Santa Fe City, Santa Fe County, and Albuquerque. Each business was assigned a value indicating in which of these three geographies it belonged in the fourth quarter of 2005 (the quarter preceding the \$9.50 living wage). The data set does not include every business, but in contrast to the \$8.50 study, it includes nearly every business located inside one of the three geographies. People who are self employed and businesses with no employees are not included in this data set because they are not subject to the living wage. State and Federal employers are excluded for the same reason.

## METHOD

The primary method used throughout this analysis is the difference-in-differences method used by Card and Krueger and others<sup>16</sup>. The final draft will include time-series analysis of form similar to that in Yelowitz (2005) and Pollin and Wicks-Lim (2005)<sup>17</sup>. The difference-in-differences analysis compares before and after differences in a given control region to differences in the region in which a minimum wage law was enacted. The results then indicate whether the change in the minimum wage region was positive or negative relative to the change in the control region. The analysis of time-series data compares total or average values over time using dummy variables to indicate the region in which the policy takes effect and the time period during which the policy is implemented.

There are two separate levels of comparison. The first consists of comparing the average change in employment from 2005 to 2006 for businesses with 25 or more employees (termed 'large' businesses) across geographies. Hence the average difference per business for Santa Fe City is compared to the average difference in Albuquerque and the average difference in Santa Fe County. The comparison is made via a simple regression of employment difference on a dummy variable indicating location (when comparing large businesses across geographies) or size (when comparing large and small businesses within a given geography) as well as a

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<sup>16</sup> For example, see the debate between Card and Krueger (1994, 1995, 2000) and Neumark and Wascher (1995, 2000).

<sup>17</sup> See Brown et al. 1982 for a comprehensive review of time-series analysis studies.

constant. The coefficient of the location variable is our difference-in-differences measure.

The second level of comparison is based on the size of businesses. Businesses are split into those with 25 or more employees (termed 'large' businesses) in either 2005 or 2006 and those with less than 25 employees in both 2005 and 2006. The method is exactly the same as when comparing across geographies, but a dummy variable indicating that a business had 25 or more employees is used in place of location.

Both methods are used to determine the difference-in-differences overall as well as for several industries: construction, retail trade, health care, accommodations, and food services.

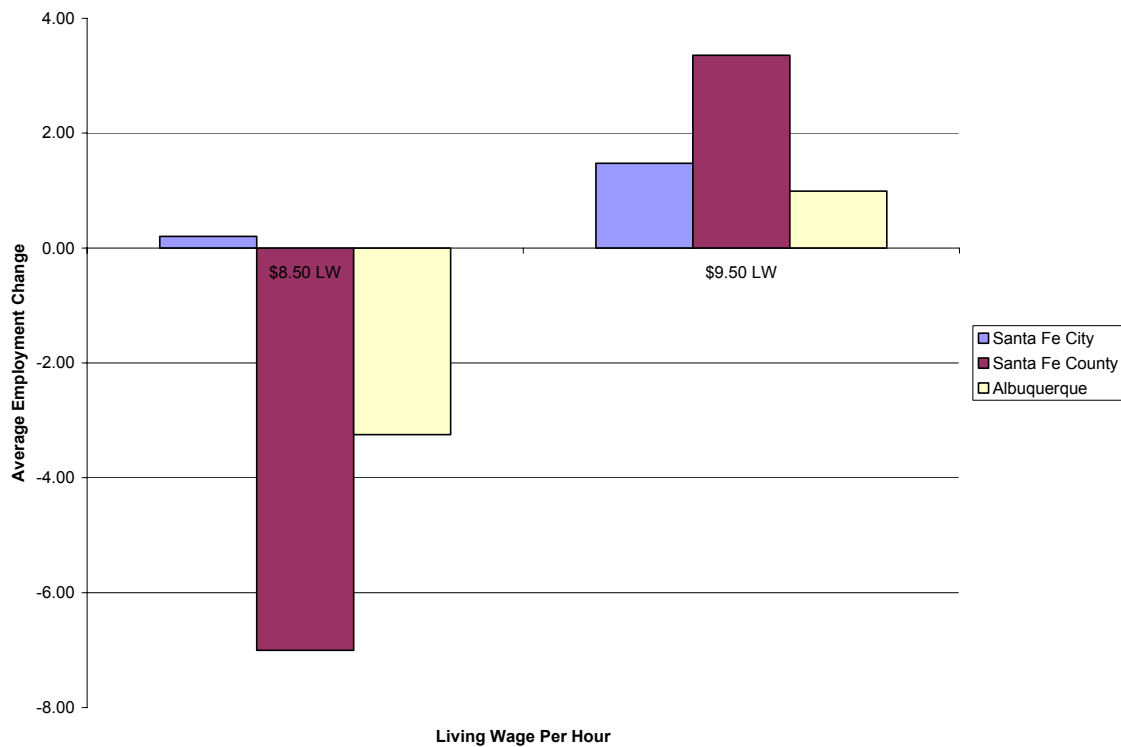
Additionally, our geographic data allows us to repeat the same analysis for the \$8.50 living wage with little difficulty. The results for both the \$9.50 and the \$8.50 minimum wage are discussed in this report.

## **RESULTS AND DISCUSSION**

### **Employment and Business Trends**

To begin with, average employment per business for Santa Fe City has been fairly stable for both small and large businesses since roughly a year before the \$8.50 living wage took effect. Large businesses in Santa Fe County and in Albuquerque decreased their average employment by 7.00 and 3.25 in the year after the \$8.50 living wage, but other changes are relatively small with a lot of variation in the changes to employment numbers. The extremely high variation indicates that businesses are changing their average employment in numerous and substantial ways, which on average amount to the generally small changes in average employment seen in Figure 4.1. This variation makes it difficult to be conclusive as to what the trends actually are, much less how they compare across different regions and business sizes. However, high variation is a good indication of numerous different changes, and so suggests that there is no systematic response to the living wage by large or small businesses.

**Figure 4.1: Average Employment Difference for Large Businesses by Location**



As can be seen in Table 4.1, the changes for small businesses are really very small, especially considering the variance in those changes. This small change coupled with the large degree of variance makes the usefulness of later comparisons with the behavior of large businesses more a reflection of large business employment decisions. That average employment at small businesses has not significantly changed for either of the two living wages is important, but limits the usefulness of statistical comparison.

**Table 4.1: Average Employment and Difference By Size and Location for the \$8.50 and \$9.50 Living Wages**

	FY2003	FY2004	\$8.50 Dif	2005	2006	\$9.50 Dif
<b>Large Businesses</b>						
Santa Fe City	66.10	66.31	0.20	69.70	71.18	1.48
(369 / 358)	(132.79)	(146.95)	(32.98)	(172.45)	(170.66)	(24.18)
Santa Fe County	84.18	77.17	-7.00	79.33	82.68	3.36
(68 / 66)	(106.02)	(103.42)	(28.60)	(101.07)	(110.12)	(51.15)
Albuquerque	95.26	92.01	-3.25	93.85	94.84	0.99
(2117 / 2144)	(356.25)	(360.70)	(57.78)	(360.27)	(357.94)	(121.75)
<b>Small Businesses</b>						
Santa Fe City	4.76	4.63	-0.14	4.76	4.68	-0.08
(3496 / 3507)	(5.11)	(5.03)	(2.74)	(5.02)	(5.03)	(2.95)
Santa Fe County	3.87	3.63	-0.24	3.37	3.09	-0.27
(1094 / 1096)	(4.06)	(4.27)	(2.42)	(4.22)	(4.23)	(1.83)
Albuquerque	5.19	5.09	-0.11	5.25	5.23	-0.01
(12497 / 12693)	(5.37)	(5.44)	(3.19)	(5.38)	(5.48)	(3.25)

Note: Population size is listed next to each location, and standard deviations are listed beneath each mean.

As can be seen in Tables 4.2 and 4.3, the number of businesses is decreasing in the years surrounding the two living wage implementations for nearly all locations, regardless of business size. In the two years surrounding the implementation of the \$8.50 living wage, the number of both large and small businesses decreased in all three locations, more due to moves and deaths than to businesses reducing the number of employees. The change in the number of large businesses with employees was -4.27 per cent for Santa Fe City, which is larger than both -3.17 per cent for Santa Fe County and -1.01 per cent for Albuquerque.

From 2005 to 2006, the number of large Santa Fe City businesses went from 306 to 325 due to 8 net new businesses and 13 net growing businesses. The number of large Albuquerque businesses which went from 1,970 to 1,991 due to enough net growth in business size to compensate for businesses moving or dying. These are increases of 6.21 per cent in Santa Fe City and 1.21 per cent in Albuquerque.

**Table 4.2: \$8.50 Living Wage Changes in Number of Businesses**

	<b>FY2004</b>	<b>B/D</b>	<b>G/S</b>	<b>FY2005</b>
<b>Large Businesses</b>				
Santa Fe City	385	-13	0	372
Santa Fe County	79	-3	1	77
Albuquerque	1,944	-64	45	1,925
<b>Small Businesses</b>				
Santa Fe City	3,299	-142	0	3,157
Santa Fe County	1,099	-127	-1	971
Albuquerque	11,597	-407	-45	11,145

Note: B/D is the sum of births and deaths, G/S is the sum of businesses that changed size categories

**Table 4.3: \$9.50 Living Wage Changes in Number of Businesses**

	<b>2005</b>	<b>B/D</b>	<b>G/S</b>	<b>2006</b>
<b>Large Businesses</b>				
Santa Fe City	363	8	13	384
Santa Fe County	88	-1	-1	86
Albuquerque	1,970	-18	39	1,991
<b>Small Businesses</b>				
Santa Fe City	3,293	-68	-13	3,212
Santa Fe County	1,170	-16	1	1,155
Albuquerque	11,753	-183	-39	11,531

Note: B/D is the sum of births and deaths, G/S is the sum of businesses that changed size categories

Small businesses in both timeframes are worse off though, decreasing substantially in all three locations in the years surrounding the \$8.50 living wage, especially in Santa Fe County, which lost 11.70 per cent of its businesses. From 2005 to 2006, the decrease in the number of small businesses is smaller, though still significant.

**Table 4.4: Difference and Percent Change in the Number of Businesses by Location**

	<b>\$8.50 Living Wage</b>		<b>\$9.50 Living Wage</b>	
	<b>Difference</b>	<b>Percent</b>	<b>Difference</b>	<b>Percent</b>
<b>Large Businesses</b>				
Santa Fe City	-14	-4.27%	19	6.21%
Santa Fe County	-2	-3.17%	-2	-2.78%
Albuquerque	-19	-1.01%	23	1.21%
<b>Small Businesses</b>				
Santa Fe City	-142	-4.35%	-78	-2.39%
Santa Fe County	-128	-11.70%	-15	-1.29%
Albuquerque	-453	-3.92%	-218	-1.86%



As to what conclusions we can draw regarding the effects of the living wage, the change in the number of businesses suggests that there may have been a small adverse reaction by large businesses when the \$8.50 living wage took effect, but that by January 2006 when the \$9.50 living wage was implemented, the growth in large businesses in Santa Fe was equal to the growth in Albuquerque in numbers, and much higher than Albuquerque in terms of per cent. Any flight of businesses in Santa Fe City appears to have been more than compensated by the influx of others.

### **Difference-in-Differences**

The difference-in-differences measures presented may be more intuitively understood as the difference in employment differences shown in Figure 4.1. Except in cases of substantial migration between locations, a close approximation to the difference-in-differences measure can be arrived at by subtracting differences in Figure 4.1 for the corresponding measure here.

After the \$8.50 living wage, average employment for large businesses in Santa Fe City increased by 3.45 more than large businesses in Albuquerque and 7.21 more than large businesses in Santa Fe County. After the \$9.50 living wage, the average employment change for large businesses in Santa Fe City was essentially the same as for Albuquerque, but was 5.05 lower than the change for Santa Fe County. This last measure is substantially different from the differences in Figure 4.1 primarily because of migration between Santa Fe City and Santa Fe County.

**Table 4.5: Overall Difference-in-Differences by Location and Size**

	<b>\$8.50 LW</b>	<b>\$9.50 LW</b>
<b>Santa Fe vs</b>		
Albuquerque	3.45	0.49
(2486 / 2502)	(0.265)	(0.940)
Santa Fe County	7.21	-5.05
(437 / 391)	(0.092)	(0.157)
<b>Large vs Small</b>		
Santa Fe City	0.34	1.56
(3865 / 3865)	(0.554)	(0.000)
Santa Fe County	-6.77	5.74
(1162 / 1377)	(0.000)	(0.000)
Albuquerque	-3.14	1.00
(14614 / 14837)	(0.000)	(0.356)

Note: (P > |t|) is listed below each mean. Sample size is listed under each location.

Looking at changes in average employment by business size, large employers in Santa Fe City behaved no differently than small businesses after the \$8.50 living wage, and increased their average employment by 1.56 over small businesses after the \$9.50 living wage, a small but highly statistically significant change. However,

this change is in line with the results from Albuquerque and Santa Fe County suggesting that large businesses overall have increased employment more than small businesses.

After the \$8.50 living wage, behavior of large businesses in our two control regions was substantially different than small businesses. After the \$8.50 living wage, large businesses in Santa Fe County decreased their average employment substantially more than small businesses, by 6.77. In Albuquerque the situation was much the same, with large businesses decreasing average employment by 3.14 more than small businesses. However, after the \$9.50 living wage the situation was reversed, with large businesses increasing their average employment relative to small businesses in both locations.

It is interesting that behavior between large and small businesses was substantially and significantly different only in the two control regions which were not directly affected by either living wage. Interpreted literally it suggests that large businesses in Santa Fe City responded to the \$8.50 living wage by increasing their relative employment, since there is no decrease mirroring that found for Santa Fe County and Albuquerque. When the \$9.50 living wage took effect, they hired more than small businesses, but not by as large a margin as Santa Fe County. The second scenario may fit with predictions from anti-minimum wage advocates, but the first is directly opposite those predictions.

Ultimately the comparison by size tells us little, since small businesses in all three locations exhibit similar slight downward trends in average employment. The differences between large and small businesses seen in Table 4.5 are more an artifact of the changes in average employment by large businesses, a measure that is already captured by comparing large businesses across the three locations.

In conclusion, the difference-in-difference analysis reveals little difference in the behavior of businesses between different geographies. Comparing changes for Santa Fe City did not yield statistically significant results except for the comparison between large and small businesses, which showed that employment at large businesses increased relative to small businesses. Given positive comparisons, it appears likely that the living wage is not a determining factor in the decision on how many workers to employ. However, there may be specific industries that are more affected by the living wage than others. The next section examines the responses of all 2-digit NAICS industries for indications of changes due to the living wage.

## **Industry Specific Measures**

### **Results by Business Location and Size**

Examining by employment trends by industry may reveal responses to the living wage that are concealed by the larger movements of the economy as a whole. Here

we address all 2-digit NAICS sectors that have a large enough sample size to disclose results without violating confidentiality.

Table 4.6 shows the results of the difference-in-differences analysis between large businesses in Santa Fe City versus those in Albuquerque and in Santa Fe County. Tables 4.7 and 4.8 show the difference-in-differences between large and small businesses in all three locations for the \$8.50 and \$9.50 living wage. We will focus here only on the negative differences. Information regarding the statistic itself in terms of population size and significance can be found in the Appendix. None of the negative values in Table 4.6 are significant at anything strong than the 12 per cent level, but many results in Tables 4.7 and 4.8 are strongly significant even below the 5 per cent level.

**Table 4.6: Difference-in-Differences for Large Santa Fe Businesses Relative to Albuquerque and Santa Fe County by Industry**

Industry	\$8.50 LW		\$9.50 LW	
	Albuquerque	Santa Fe County	Albuquerque	Santa Fe County
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	-8.90	1.47	0.38	-2.30
31-33 - Manufacturing	21.81	11.20	-7.29	6.63
42 - Wholesale	6.70	-9.99	0.67	21.28
44-45 - Retail	-1.36	-0.81	6.94	0.52
48-49 - Trans & Ware	6.01	-	-2.16	-
51 - Information	2.67	-20.55	-25.90	-7.31
52 - Finance & Insurance	3.81	-	5.49	4.19
53 - Real Estate	-12.69	-	-4.18	-
54 - Prof Services	-4.63	-	2.40	14.45
55 - Management	2.14	-	-15.55	-
56 - Admin & Waste	13.39	69.81	5.19	33.91
61 - Educational	25.73	28.07	-11.23	-22.03
62 - Health Care	2.72	-10.27	2.83	11.77
71 - Arts, Entertain & Rec	12.06	25.62	0.09	-1.06
721 - Accommodations	10.29	9.01	-10.66	1.97
722 - Food Services	3.53	-2.08	-2.31	-6.57
81 - Other Services	0.65	-8.72	3.16	-0.18
92 - Public Admin	-6.34	-	-13.83	-82.20

Note: (P > |t|) below each mean. Population size and significance is show in the appendix tables A.2 and A.3.

**Table 4.7: Difference-in-Differences for Large and Small Businesses by Industry, \$8.50 Living Wage**

<b>Industry</b>	<b>\$8.50 LW</b>		
	<b>Santa Fe City</b>	<b>Santa Fe County</b>	<b>Albuquerque</b>
11 - Agriculture	-	-	-
21 - Mining	-	-	-
22 - Utilities	-	-	-
23 - Construction	-6.02	-7.59	2.59
31-33 - Manufacturing	9.16	-1.98	-12.71
42 - Wholesale	4.02	14.38	-2.59
44-45 - Retail	1.01	1.77	2.33
48-49 - Trans & Ware	4.63	-7.44	-1.54
51 - Information	-20.57	-0.58	-23.44
52 - Finance & Insurance	3.32	-	-0.53
53 - Real Estate	-14.34	-	-1.76
54 - Prof Services	-3.83	-	0.83
55 - Management	6.07	-	1.93
56 - Admin & Waste	10.06	-59.67	-3.27
61 - Educational	29.96	3.06	4.75
62 - Health Care	-7.07	3.74	-9.95
71 - Arts, Entertain & Rec	3.37	-22.22	-8.83
721 - Accommodations	6.30	-3.16	-2.55
722 - Food Services	-0.85	2.26	-4.29
81 - Other Services	-4.86	4.16	-5.37
92 - Public Admin	-	-	16.85

Note: (P > |t|) below each mean. Bold values are significant at 5%. Population size and significance is shown in the appendix tables A.4 - A.6.

**Table 4.8: Difference-in-Differences for Large and Small Businesses by Industry, \$9.50 Living Wage**

Industry	\$9.50 LW		
	Santa Fe City	Santa Fe County	Albuquerque
11 - Agriculture	-	-	-
21 - Mining	-	-	-
22 - Utilities	-	-	-
23 - Construction	5.56	7.73	4.90
31-33 - Manufacturing	-5.96	-12.37	1.37
42 - Wholesale	4.71	-17.26	4.06
44-45 - Retail	2.32	1.72	-4.55
48-49 - Trans & Ware	-1.22	-30.76	0.52
51 - Information	-3.85	3.68	22.80
52 - Finance & Insurance	1.96	-2.17	-3.51
53 - Real Estate	-3.94	-	0.25
54 - Prof Services	4.40	-10.12	1.92
55 - Management	-2.71	-	13.04
56 - Admin & Waste	-2.79	-36.71	-7.97
61 - Educational	-6.15	15.33	4.68
62 - Health Care	1.29	-10.87	-1.70
71 - Arts, Entertain & Rec	-5.28	-3.86	-5.73
721 - Accommodations	12.62	9.71	22.23
722 - Food Services	-0.10	6.98	1.82
81 - Other Services	3.43	3.60	0.35
92 - Public Admin	-	-	10.60

Note: (P > |t|) below each mean. Bold values are significant at 5%. Population size and significance is shown in the appendix tables A.4 - A.6.

For most industries, sectors with a negative result also possess several positive results and no trend is apparent. Wholesale results are both positive and negative across location and size, with no numbers matching up to suggest a bigger systematic change that could be caused by the living wage. The same is true of Transportation and Warehousing, Professional services and other sectors with generally positive comparisons between large Santa Fe City businesses and the various control groups.

We've discussed the construction sector in earlier reports on the \$8.50 living wage. The negative relationship to Albuquerque was attributed in that case to a slowdown in the construction sector rather than the living wage. Results from this analysis bear that assumption out. Though large businesses in Santa Fe City reduced employment relative to Albuquerque, they actually hired more employees relative to Santa Fe County after the \$8.50 living wage. After the \$9.50 living wage the directions of the values were reversed. Comparing by size, employment changes for large businesses relative to small businesses is negative for both Santa Fe City and Santa Fe County after the \$8.50 living wage, but positive for Albuquerque. After the \$9.50 living wage large businesses in all three locations increased employment relative to small businesses. All of this taken together suggests that the decrease in

construction employment occurred in both Santa Fe City and Santa Fe County, and therefore was likely caused by factors other than the living wage.

The change in employment in the manufacturing sector in Santa Fe City is positive compared with Santa Fe County and Albuquerque after the \$8.50 living wage, as was negative relative to Albuquerque after the \$9.50 living wage. Even then it is positive relative to Santa Fe County, suggesting that Albuquerque's growth in this sector is the primary cause of the number. Similarly, after the \$8.50 living wage, large businesses in Santa Fe City increased their employment relative to small businesses, while in Santa Fe County and Albuquerque that number was negative. After the \$9.50 living wage Santa Fe City and Santa Fe County had a negative employment change for large businesses relative to small businesses while Albuquerque had a positive change. We are aware of specific companies in the manufacturing sector that have chosen to relocate due to the living wage, but the overall employment changes in this sector are fairly positive.

The retail numbers do suggest a small, and again insignificant, negative reaction to the \$8.50 living wage, but no such reaction, and in fact very positive relative to Albuquerque, to the \$9.50 living wage. By size, large retailers in Santa Fe City are increasing employment relative to small businesses and by larger amounts than for Santa Fe County or Albuquerque (which had a negative result after the \$9.50 living wage).

The information sector is different in that three of the comparisons are negative. There is a high negative change relative to Santa Fe County after the \$8.50 living wage, and a substantial negative change after the \$9.50 living wage relative to both Albuquerque and Santa Fe County. Though each number is insignificant, taken together they do suggest a correlation between the negative changes and the living wage. Comparisons by size further emphasize this possibility. After the \$8.50 living wage large businesses reduced employment relative to small businesses in all three regions, but only substantially in Santa Fe City and Albuquerque. After the \$9.50 living wage, Santa Fe City is the only location with a negative result. Furthermore, both of the negative results for the size comparison in Santa Fe City are statistically significant at greater than 10 per cent, though the results for Albuquerque are also significant.

The information sector includes a mishmash of businesses including call centers as well as film and other media. The film industry in particular is huge but also widely variable. It may be that new film projects in Santa Fe are choosing to base themselves in Santa Fe County rather than Santa Fe City, though this is only a possible explanation for the numbers and hasn't at this point been corroborated by any businesses in the industry itself.

While the sample of Santa Fe County limits the analysis to changes in Santa Fe City and Albuquerque, the real estate industry results for large businesses were negative with respect to Albuquerque as well as with respect to small Santa Fe City

businesses. The values were not significant when comparing Santa Fe City to Albuquerque, but they were significant for both living wages when comparing large businesses to small within Santa Fe City. Given that the size comparison for Albuquerque indicates an increase in employment at large real estate businesses, it is possible that the living wage contributed to some negative employment changes in this sector. Housing in Santa Fe is was doing quite well in 2006, but employment is decreasing relative to the control groups. This may be due to decreases in large Santa Fe City businesses or increases in small Santa Fe businesses and large Albuquerque businesses.

As far as education is concerned, large Santa Fe City businesses increased their average employment by quite large amounts relative to Albuquerque and Santa Fe County after the \$8.50 living wage, only to decrease by smaller but still substantial numbers after the \$9.50 living wage. This trend is also true when comparing large businesses to small within each region. We suspect that some impetus for the large growth from fiscal year 2004 to fiscal year 2005 was no longer there from 2005 to 2006, or was replicated by the two control regions in that time. It is possible but unlikely that businesses were not affected at all by the \$8.50 living wage but were affected by the \$9.50 living wage.

Large businesses in the Santa Fe City health care industry increased employment over Albuquerque across all measures, but relative to Santa Fe County decreased employment after the \$8.50 living wage and increased relative employment after the \$9.50 living wage. Though the health care sector was a concern in the report on the \$8.50 living wage, these results suggest an overall positive trend, though there may have been an initial decrease in employment by large employers when the \$8.50 living wage took effect.

The food services sector is always a concern when considering living wages, and tends to serve as the best proxy for negative employment effects by virtue of its typically low wages. In the case of Santa Fe City, food services shows negative employment relative to Santa Fe County but positive employment relative to Albuquerque after the \$8.50 living wage, and negative employment relative to both areas after the \$9.50 living wage. This may be an indication of a small negative correlation, but the statistical significance of all measures is very low. Comparing by size, large and small businesses in Santa Fe behaved very similarly, further suggesting little correlation.

In the other services sector, employment changes for businesses in the other services sector were positive in Santa Fe City relative to Albuquerque and negative relative to Santa Fe County after both living wage changes. Additionally, large businesses in Santa Fe City decreased employment relative to small businesses after the \$8.50 living wage, and increased relative employment after the \$9.50 living wage. However, the comparisons by business size are statistically significant for all three regions except Albuquerque after the \$9.50 living wage, indicating a possible

decrease in employment in response to the \$8.50 living wage, but a compensating increase after the \$9.50 living wage.

Public administration is plagued by low population numbers that make it difficult to test employment changes. Those changes that we are able to test are still subject to large degrees of uncertainty. Large public administration businesses in Santa Fe City decreased employment relative to Albuquerque after the \$8.50 living wage (comparison to Santa Fe County was not available) and relative to both Albuquerque and Santa Fe County after the \$9.50 living wage. Comparison of large Santa Fe City businesses to small businesses in this sector is not available due to the small number of businesses for either living wage. The comparison across locations suggests that public administration in Santa Fe declined over both periods, though none of the measures is statistically significant and it is difficult to be sure of the cause for this dynamic.

Though there are no significant results when comparing large businesses across the three different geographies, there are trends that, combined with the information from the comparison of large and small businesses within each location, suggest that some industries may have decreased employment after the living wage took effect. These sectors include information services, real estate, other services and public administration in particular. In each case there are reasons to doubt that the decline in average employment relative to the controls is caused by the living wage, but there are correlations that in some cases are statistically significant, though other factors may always be the cause.

## **CONCLUSION**

Social research is rarely cut and dried. This analysis uses the statistical measure of a difference-in-differences to compare businesses subject to the living wage to several different control groups of businesses. The hope is that measuring the change that occurs after the living wage is implemented will capture whatever impacts the living wage may have had. Of course, there are numerous factors that affect whether businesses in a given region are increasing or decreasing their employment, and it is essentially impossible to control for all of them so as to tease out the elusive contribution made by the living wage.

Statistical methods ultimately reveal only large aggregate changes, and these statistical results indicate that the living wage did not generate any impact large enough to pick it out from general noise. There is anecdotal evidence of businesses making decisions based on the living wage, but they are not concerted enough in size or direction to show up in these numbers. It is here that statistics can help us no further. The usual recourse is to develop a wider base of knowledge through surveys, focus groups, and analysis of other economic indicators so as to be able to examine a policy like the living wage with as much information as possible. Those other factors are currently being examined, but for now we only have the statistical results in this paper to go on.



That said statistics is extremely useful in detecting systematic changes that are suggestive of a causal relationship. That there were no substantial statistically significant results to speak of suggests that there is no systematic response to the living wage in terms of employment changes. Advocates of the living wage may argue that any negative results are due to other factors. Critics of the living wage may argue that positive and neutral results merely show how strongly employment could have been growing if the living wage had not been implemented. A definitive answer may not exist or be definable, but it is certainly better informed by the use of statistical methods supplemented by a broader analysis of data and interviews with businesses and workers. The following report will include this extended research.

## REFERENCES

Reynis, Lee, and Myra Segal and Molly Bleecker. Preliminary analysis of the impacts of the \$8.50 minimum wage on Santa Fe businesses, workers and the Santa Fe economy. University of New Mexico – Bureau of Business and Economic Research. Report, December 2005.

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**Table A.1: Average Employment and Differences by Location**

	FY2003	FY2004	\$8.50 Dif	2005	2006	\$9.50 Dif
<b>Large Businesses</b>						
Santa Fe City	66.10	66.31	0.20	69.70	71.18	1.48
(369 / 358)	(132.79)	(146.95)	(32.98)	(172.45)	(170.66)	(24.18)
Santa Fe County	84.18	77.17	-7.00	79.33	82.68	3.36
(68 / 66)	(106.02)	(103.42)	(28.60)	(101.07)	(110.12)	(51.15)
Albuquerque	95.26	92.01	-3.25	93.85	94.84	0.99
(2117 / 2144)	(356.25)	(360.70)	(57.78)	(360.27)	(357.94)	(121.75)
<b>Small Businesses</b>						
Santa Fe City	4.76	4.63	-0.14	4.76	4.68	-0.08
(3496 / 3507)	(5.11)	(5.03)	(2.74)	(5.02)	(5.03)	(2.95)
Santa Fe County	3.87	3.63	-0.24	3.37	3.09	-0.27
(1094 / 1096)	(4.06)	(4.27)	(2.42)	(4.22)	(4.23)	(1.83)
Albuquerque	5.19	5.09	-0.11	5.25	5.23	-0.01
(12497 / 12693)	(5.37)	(5.44)	(3.19)	(5.38)	(5.48)	(3.25)

Note: Population size is listed next to each location, and standard deviations are listed beneath each mean.

**Table A.2: Sample Size and Significant for Large Businesses in Santa Fe City Relative to Albuquerque**

Industry	Santa Fe City Versus Albuquerque			
	\$8.50 LW		\$9.50 LW	
	Sample	P >  t	Sample	P >  t
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	234	0.223	245	0.956
31-33 - Manufacturing	121	0.623	116	0.759
42 - Wholesale	117	0.641	119	0.944
44-45 - Retail	387	0.695	421	0.286
48-49 - Trans & Ware	52	0.734	57	0.763
51 - Information	64	0.948	65	0.556
52 - Finance & Insurance	105	0.704	98	0.375
53 - Real Estate	55	0.218	53	0.541
54 - Prof Services	170	0.327	174	0.729
55 - Management	30	0.979	32	0.846
56 - Admin & Waste	183	0.298	177	0.954
61 - Educational	47	0.306	40	0.169
62 - Health Care	262	0.830	248	0.899
71 - Arts, Entertain & Rec	46	0.377	49	0.999
721 - Accommodations	81	0.438	81	0.616
722 - Food Services	402	0.480	395	0.467
81 - Other Services	84	0.953	81	0.458
92 - Public Admin	21	0.920	30	0.177

**Table A.3: Sample Size and Significant for Large Businesses in Santa Fe City Relative to Santa Fe County**

Industry	Santa Fe City Versus Santa Fe County			
	\$8.50 LW		\$9.50 LW	
	Sample	P >  t	Sample	P >  t
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	35	0.816	37	0.660
31-33 - Manufacturing	13	0.492	10	0.837
42 - Wholesale	11	0.427	11	0.037
44-45 - Retail	84	0.903	89	0.948
48-49 - Trans & Ware	-	-	-	-
51 - Information	11	0.806	11	0.579
52 - Finance & Insurance	-	-	19	0.406
53 - Real Estate	-	-	-	-
54 - Prof Services	-	-	14	0.275
55 - Management	-	-	-	-
56 - Admin & Waste	25	0.000	21	0.051
61 - Educational	17	0.548	15	0.125
62 - Health Care	48	0.444	44	0.196
71 - Arts, Entertain & Rec	12	0.293	13	0.903
721 - Accommodations	29	0.795	32	0.946
722 - Food Services	77	0.749	72	0.168
81 - Other Services	14	0.558	14	0.993
92 - Public Admin	-	-	15	0.131

**Table A.4: Sample Size and Significant for Large Businesses  
Relative to Small Businesses in Santa Fe City**

Industry	Santa Fe City Large Versus Small			
	\$8.50 LW		\$9.50 LW	
	Sample	P >  t	Sample	P >  t
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	375	0.000	371	0.000
31-33 - Manufacturing	103	0.005	103	0.263
42 - Wholesale	114	0.021	106	0.001
44-45 - Retail	702	0.202	706	0.029
48-49 - Trans & Ware	25	0.009	24	0.605
51 - Information	88	0.018	87	0.061
52 - Finance & Insurance	230	0.001	205	0.004
53 - Real Estate	181	0.000	195	0.002
54 - Prof Services	546	0.000	541	0.000
55 - Management	17	0.057	15	0.325
56 - Admin & Waste	164	0.000	159	0.031
61 - Educational	75	0.017	77	0.026
62 - Health Care	379	0.000	393	0.256
71 - Arts, Entertain & Rec	93	0.027	94	0.008
721 - Accommodations	73	0.462	81	0.112
722 - Food Services	254	0.571	239	0.929
81 - Other Services	415	0.000	424	0.011
92 - Public Admin	-	-	-	-

**Table A.5: Sample Size and Significant for Large Businesses  
Relative to Small Businesses in Santa Fe County**

Industry	Santa Fe County Large Versus Small			
	\$8.50 LW		\$9.50 LW	
	Sample	P >  t	Sample	P >  t
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	268	0.000	323	0.000
31-33 - Manufacturing	47	0.403	45	0.013
42 - Wholesale	48	0.000	56	0.000
44-45 - Retail	113	0.016	126	0.090
48-49 - Trans & Ware	20	0.000	24	0.000
51 - Information	20	0.299	26	0.130
52 - Finance & Insurance	34	-	45	0.016
53 - Real Estate	58	-	77	-
54 - Prof Services	144	-	185	0.000
55 - Management	-	-	-	-
56 - Admin & Waste	76	0.000	88	0.000
61 - Educational	29	0.036	32	0.008
62 - Health Care	56	0.100	66	0.000
71 - Arts, Entertain & Rec	37	0.031	45	0.010
721 - Accommodations	15	0.205	16	0.142
722 - Food Services	40	0.358	47	0.105
81 - Other Services	114	0.000	128	0.000
92 - Public Admin	-	-	-	-

**Table A.6: Sample Size and Significant for Large Businesses in Santa Fe Relative to Albuquerque**

Industry	Albuquerque Large Versus Small			
	\$8.50 LW		\$9.50 LW	
	Sample	P >  t	Sample	P >  t
11 - Agriculture	-	-	-	-
21 - Mining	-	-	-	-
22 - Utilities	-	-	-	-
23 - Construction	1334	0.016	1402	0.000
31-33 - Manufacturing	625	0.021	625	0.585
42 - Wholesale	999	0.073	1025	0.000
44-45 - Retail	1903	0.002	1947	0.001
48-49 - Trans & Ware	233	0.409	229	0.655
51 - Information	286	0.004	278	0.009
52 - Finance & Insurance	1030	0.713	1022	0.000
53 - Real Estate	793	0.071	788	0.708
54 - Prof Services	2168	0.052	2214	0.001
55 - Management	120	0.868	112	0.133
56 - Admin & Waste	794	0.172	811	0.595
61 - Educational	204	0.331	231	0.005
62 - Health Care	1387	0.000	1422	0.665
71 - Arts, Entertain & Rec	163	0.007	166	0.637
721 - Accommodations	170	0.617	177	0.019
722 - Food Services	931	0.011	938	0.078
81 - Other Services	1329	0.000	1308	0.413
92 - Public Admin	27	0.590	28	0.362

## **CHAPTER 5**

### **POTENTIAL UNINTENDED CONSEQUENCES OF THE LIVING WAGE**

During the course of BBER's study of the \$8.50 minimum wage in Santa Fe there were issues raised during interviews and in focus groups by employers and workers that were not apparent in the administrative data. These unintended consequences were examined at that time. Many of the same concerns still exist today and those issues identified during that study are reexamined here. This chapter is by no means comprehensive and does not preclude the investigation of additional concerns that may arise in the course of the current study. In fact, it is our intention to further examine these issues, as new information becomes available, and to investigate other issues that may arise over the course of this study.

#### **WORKERS WITH DISABILITIES**

The increased minimum wage has had a major impact on organizations providing vocational services to people with disabilities. These impacts include difficulty in finding employment for workers trained by these organizations, finding employees to work in assisted-living facilities in assisted vocational programs and budgetary constraints that have led these organizations to eliminate programs and reduce the number of employees. In a market with limited funds and a business model that is not based on profit, many of the organizations in Santa Fe have reorganized, restructured and refocused to meet the needs of those with disabilities in the city. Some have closed up shop, others have shifted their operations to locations outside Santa Fe and some have found useful partnerships with national organizations to lessen the impacts of the living wage.

In 2005, BBER conducted interviews with three organizations providing vocational services for people with disabilities. Follow up interviews with these were conducted in August 2007.

The issues facing these organizations were similar to those mentioned in the fall of 2005, but are more severe and have impacted their day-to-day operations and the services they provide. 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 add 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. This is difficult for these organizations which for years have specialized in carving out jobs that meet the skills of their trainees with the needs of the employer. According to one interviewee, there is no benefit to the organization, the employer or the employee if the job is given "only as a token."

In response to the demands of employers, one organization said it was evaluating its training model to include additional skill sets, but in the meantime was working to recruit more "mom and pop" businesses that did not have to pay the living wage. The organization said this effort had been relatively successful and that smaller businesses were willing to work with their organization.

These organizations characterized their efforts to find employees to work at assisted-living facilities and in vocational training programs as a "struggle." Beyond the living wage they pointed to the area's unemployment rate which has hovered at about 3 percent.

All three organizations cited Santa Fe's low unemployment as a major issue. State contractors are exempt from the living wage and those organizations operating state-funded programs in the city find it difficult to attract "quality" employees to fill open positions. The ability for workers to take higher paying jobs elsewhere and the lack of money in non-profit budgets to raise wages for all employees has made the Santa Fe labor market a difficult place to compete. As one interviewee put it, "we are left with the people that can't get a job anywhere else."

One non-profit said it had shut down its employment placement programs entirely and let go of the majority of its workers because of this issue as it was unable to pay the living wage with the funds provided under state contracts. In two years, the organization's multi-million dollar budget has fallen to a few hundred thousand. The organization went from over 100 employees to just a couple, and left the city. This organization's decline is quite stark, but they also said it was a choice to change focus as providing services, acquiring funding and finding qualified employees became more difficult. The organization characterized the living wage as "the straw that broke the camel's back."

But there is variability in the impact of the increased minimum wage on the three organizations' business operations. This appears to come from the differences in funding and total services provided by the organizations. Two of the three

organizations rely heavily on government funding, such as state contracts or incentive-based funding from the Division of Vocational Rehabilitation and both organizations' central focus is finding employment for individuals with disabilities. These organizations have either abandoned all or some of the state contracts they previously held. These organizations say they have also begun expanding services in other parts of the state such as Espanola and Las Vegas while decreasing operations in Santa Fe. These organizations were severely impacted by the increased minimum wage because their funding has not gone up to match the higher wages they must pay employees to compete with other businesses in the area. According to these organizations, this funding issue exists at all levels from the state to outside grants.

The third organization is one branch of a national organization with state-level management that provides more services and relies on more sources of income and was better able to absorb the cost of the higher wages in Santa Fe. However, this organization said it remains difficult to place workers in Santa Fe. This organization said the recent statewide increase in the minimum wage and the Albuquerque increase had both coincided with initial drop offs in placement, but that after a period of adjustment placement numbers had returned to pre-increase levels. This is not the case in Santa Fe where placement remains below levels prior to the implementation of the living wage.

## **HIGH SCHOOL STUDENTS**

### **Reduced Employment Opportunities**

A concern raised during the 2005 study was the potential negative impacts of the living wage on low and unskilled workers still in high school. During that study, many employers said they would be less likely to hire unskilled or untrained workers at the higher wage. In the 2005 study, several of the business survey respondents stated that they did not hire or would not hire unskilled or untrained employees when the wage increased to \$9.50. This may be happening with a few businesses, but overall this does not appear to be happening in Santa Fe. In fact, as Table 5.1 indicates, since the living wage went into effect, the number of young workers between the ages of 14-24 has increased steadily.

**Table 5.1:** shows the total number of employees in three age groups in the second quarter of each year from 1996 and 2006, the most recent data available. It is important to note that the major dip in employment, especially in the 14-18 year old cohort, occurred in the second quarter of 2004, before the living wage was implemented.

**Table 5.1**

**Santa Fe City Employment Second Quarter Over Quarter:  
Second Quarter 1996 through 2006**



Source: U.S. Census Bureau and NM Dept. of Workforce Solutions, Economic Research and Analysis

In reviewing quarter-by-quarter data since the wage was implemented one sees that youth employment has continued to increase in all age cohorts. This data suggests that youth seeking employment are not disadvantaged by either the \$8.50 or \$9.50 minimum wage. The downturn in employment in the above table mirrors statewide and national trends with the dot com bust in the early part of the decade, a decline in tourism after Sept. 11, 2001 and a mild winter which had a negative impact on winter recreation.

### **Increased Number of High School Dropouts**

It has been suggested that the increased minimum wage provides incentive to “at-risk” students to dropout of high school. There is no data to support this claim, but the data available from the New Mexico Department of Education and the Santa Fe School District is questionable. Part of the problem is that the data available on dropout rates for the school year immediately following the implementation of the \$9.50 minimum wage is not yet available. The data for the school year following the implementation of the \$8.50 minimum shows a significant decrease in the dropout rate over the previous two years (see table 5.2). The reported dropout rate for the 2005-2006 school year in Santa Fe was 5.7 percent, down from 10.5 percent the previous year and 10 percent in 2003-2004.

**Table 5.2**

**2000-2001 THROUGH 2005-2006 DROPOUT RATES  
FOR SANTA FE PUBLIC SCHOOL DISTRICT**

School Year	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Rate	7.5%	6.9%	3.8%	10.0%	10.5%	5.7%

Sources: NM PED Accountability Resources Annual Dropout Reports  
(<http://www.ped.state.nm.us/div/ais/data/resources/index.html>) and NM PEDS  
Accountability Report 2003  
(<http://www.sde.state.nm.us/div/ais/data/account/dl/ar0203.pdf>)

There are questions about the reliability of the data for this school year and those before it that would need to be addressed. The most reliable and usable data on dropout rates are ones that follow a cohort of students through their years in the educational system. Instead, what the NM PED uses to calculate dropout rates is data reported by districts, which collect it from the individual schools within the district. Individual schools are required to supply the name of the student, his/her grade, the reason (according to the student) for dropping out (there are sixteen possible reasons to choose from, including “Left School to Work” and “Transfer”), the date the student dropped out, and whether or not the student is in special education. According to an official who deals with the collection of this data for one school district, the data used in these reports is inherently unreliable because some of the individual schools are very forthcoming and report accurately and thoroughly, and some are not. Therefore, the state is given “very subjective figures” to work with.

The data the NM PED receives, accurate or not, is then used to calculate the dropout rate, which is figured by dividing the number of dropouts in a school year by the number enrolled on the 40th day of the school year. The NM PED website gives the following example:

In October of this school year, 100 students were enrolled in a certain school; during the year, ten students dropped out. The dropout rate is calculated by dividing the number of dropouts by the membership. Thus, the dropout rate for this example is computed as follows:

$$\frac{\text{Dropouts}}{\text{Membership}} = \frac{10}{100} = 10.0\%$$

The NM PED also publishes statistics on the reasons for dropout. There are sixteen possible reasons in the report available for SY 2005-2006, including “Left School to Work.” Unfortunately, these data suffer from the same reliability problems as discussed above, since they are compiled from the same numbers. That this is a problem is apparent when one looks at the number of dropouts in the “Other (Unknown)” column. The most recent data provided by the state provides only statewide totals for reasons cited for dropping with the “Other (Unknown)” category

cited the most often at every grade level. In 2005-2006, only 2.5 percent of all high school dropouts statewide reported “Left to Work” as the reason for dropping out, however, 35 percent were reported as “Other (Unknown).” This is a major portion of the population whose reasons for leaving school remain a mystery.

An official with the Santa Fe School District said the impact of the wage on dropouts was “negligible,” adding that only five dropouts said they were leaving school because of the wage, since 2005. But the official added that the data was unreliable and was gleaned from a random sample that was unscientific in nature.

## **HEALTH INSURANCE BENEFITS**

The increasing cost of health insurance is a continuing concern for both employers and employee. In interviews performed this month, one concern was that employers were offering fewer benefits to their employees or are asking their employees to pick up a larger portion of the premiums because of the \$9.50 minimum wage. Cutting health insurance appears to be a prime candidate when cost-saving measures are needed by businesses and BBER has added questions to its business survey dealing with this issue. It may also be addressed during focus group session.

In the 2005 study, many employers mentioned recent annual increases of 18-20 percent in healthcare costs. In some ways, this creates a catch-22, the higher the cost, the fewer employees who enroll, and when the number of enrolled employees drops below 75 percent it raises the premiums charged by insurance companies making it even less attractive to employees.

As was the case in 2005, healthcare costs continue to rise and the availability of employment-based insurance is in decline, but this trend is also occurring at the state and national level. Data that would allow one to track trends in employer-provided healthcare is unavailable. But even then, it would not tell us if those changes were related to the minimum wage increase. Again the survey touches on this issue and should provide some information on what changes, if any, employers have made in their company’s health benefits since the living wage was enacted.

The Living Wage Ordinance includes a provision that allows employers to count the value of health benefits toward wage compliance, but in surveys and interviews during the 2005 study, workers said they were more likely to take the immediate benefit and employers said offering a lower wage with higher benefits made them less attractive to workers.

## **EXEMPTION OF BUSINESSES WITH UNDER 25 EMPLOYEES**

The city of Santa Fe is currently considering a proposal that would require all business to pay the living wage. The current proposal sets the starting wage at \$9.50 with annual adjustments for inflation.

With low unemployment in the city of Santa Fe there is a competition for employees. A major issue for exempt non-profits with state contracts is the inability to attract workers when paying less than the living wage. In the 2005 survey, responses indicated that the exemption for businesses with fewer than twenty-five employees does not seem to exist in practice. Respondents, who own or run businesses with fewer than 25 employees, seem to have found that paying the living wage, or at least increasing wage, was necessary to compete for workers. As mentioned earlier in this chapter, non-profits which provide vocational training and placement services for people with disabilities have found businesses which are currently exempt from the living wage as willing and able partners in placing these workers.

### **INFLUX OF NON-LOCAL WORKERS**

In 2005, several businesses mentioned that they believe workers from outside Santa Fe are commuting into Santa Fe in order to earn more for the same job they performed outside the city. These workers then compete with Santa Fe workers for minimum wage-level jobs.

In 2007, this concern still exists. In interviews with a few local business owners and support organizations, anecdotal stories of non-local workers competing for jobs were shared, but all were second hand, not direct experience. This phenomenon would also require further study, in order to be validated.