

Amendment 42
Colorado Minimum Wage

1 **Amendment 42 proposes a change to Article XVIII of the Colorado Constitution that:**

- 2 ♦ raises the minimum wage from \$5.15 per hour to \$6.85 per hour, and adjusts
3 the wage annually for inflation; and
- 4 ♦ increases the minimum wage for workers who regularly receive tips from \$2.13
5 per hour to \$3.83 per hour and adjusts it annually by the same dollar amount
6 as the minimum wage for non-tipped workers.

7 **Summary and Analysis**

8 ***What is the minimum wage?*** The minimum wage is the lowest wage that can be
9 paid to most workers. It was instituted in 1938 by the federal government. Since then, the
10 federal minimum wage has been increased nineteen times, from \$0.25 to its current level
11 of \$5.15 per hour for most workers and \$2.13 per hour for workers that receive tips. It was
12 last increased in 1997.

13 States can set a higher minimum wage than the federal one. Colorado's minimum
14 wage is currently set at the federal amount of \$5.15 per hour. Although federal law also
15 allows cities to enact a higher minimum wage, state law does not allow cities to enact
16 minimum wage laws separate from that of the state.

17 ***Which workers typically get paid the minimum wage?*** Nationally, nearly three-
18 quarters of those paid \$5.15 per hour or less work in service jobs, mostly in food
19 preparation and serving. Some workers can be paid less than \$5.15 per hour because they
20 receive tips or other compensation in addition to their hourly wage. Also, there are several
21 jobs that are not covered by the minimum wage. The most common of these include
22 certain farm workers, part-time babysitters, some seasonal and recreational employees,
23 newspaper delivery persons, and salespeople who regularly work away from their
24 employer's place of business.

25 The federal government publishes wage data for workers paid by the hour. This
26 data overstates the number of workers affected by Amendment 42 because it includes
27 workers not covered by minimum wage laws. Also, it understates the earnings of some
28 workers because it does not include tips and other compensation. According to 2005 wage
29 data, about 106,000, or just under 5 percent, of Colorado workers were paid less than \$6.85
30 per hour, the wage rate set in Amendment 42. About 72,000 of these workers were paid
31 between \$5.15 and \$6.85 per hour, 9,000 were paid \$5.15 per hour, and 25,000 were paid

1 less than \$5.15 per hour. Many of the workers earning below \$5.15 per hour likely
2 received other compensation that pushed their total earnings above \$5.15 per hour.

3 ***How does Amendment 42 change state law?*** Amendment 42 increases Colorado's
4 minimum wage from \$5.15 per hour to \$6.85 per hour beginning January 1, 2007.
5 Furthermore, the proposal adjusts the wage by the rate of inflation each year. For workers
6 who regularly receive tips, the minimum wage increases from \$2.13 per hour to \$3.83 per
7 hour. This wage will adjust each year so that it will always be no more than \$3.02 *less*
8 *than* that for workers who do not receive tips. For example, if inflation is 3 percent in
9 2007, in 2008 the minimum wage would increase to \$7.06 for most workers and \$4.04 for
10 workers who receive tips.

11 ***How many states have higher minimum wages than the federal one?*** As of
12 August 2006, 23 states and the District of Columbia had adopted a minimum wage greater
13 than the federal minimum wage. Of those, four are adjusted annually by the rate of
14 inflation. Washington State has the highest minimum wage. It is currently set at \$7.63 per
15 hour and adjusts for inflation each year.

16 **Arguments For**

17 1) Raising the minimum wage ensures that more Coloradans working full-time will
18 earn an income above the poverty level. Currently, a full-time worker earning \$5.15 per
19 hour makes about \$10,700 a year. Amendment 42 raises this amount by a third, to about
20 \$14,250. The annual income considered to be poverty level is \$9,800 for a one-person
21 household and \$13,200 for a two-person household. Up to an estimated 138,000 Colorado
22 workers could benefit from Amendment 42, including low-income workers earning just
23 above the proposed minimum. Some of these workers' wages are the only source of their
24 family's earnings.

25 2) An increase in the minimum wage is overdue. The federal government has not
26 raised the minimum wage for nine years. Each year it becomes more difficult for minimum
27 wage workers to buy necessary goods and services because of the rising cost of living. The
28 buying power of the minimum wage is the lowest it has been for over 50 years. The
29 proposed minimum wage of \$6.85 restores the wage to near its average buying power over
30 the last 50 years. Adjusting the wage for inflation guarantees that the wage will not lose
31 its buying power in the future.

32 3) Raising the minimum wage could benefit both businesses and workers by
33 increasing worker morale and productivity, as well as reducing turnover and absenteeism.
34 Further, some evidence shows that states that have minimum wages above the federal level
35 have had favorable employment growth, including in industries that typically pay lower
36 wages. This evidence shows that an increase in the minimum wage in these states has
37 benefitted low-income workers without harming the economy.

1 **Arguments Against**

2 1) Raising the minimum wage may hurt the economy. Requiring businesses to
3 increase the pay of non-tipped minimum wage workers by 33 percent and tipped minimum
4 wage workers by 80 percent will push up wages of other workers and increase overall labor
5 costs. Some evidence shows that businesses respond to an increase in the minimum wage
6 by raising prices or by hiring fewer workers, or both. An increase in the minimum wage
7 could be particularly difficult for smaller businesses and restaurants with fewer financial
8 resources. The government does not need to require businesses to pay their workers more;
9 businesses already pay nearly all Colorado workers more than the proposed minimum
10 wage.

11 2) Some evidence shows that increases in the minimum wage cause employers to
12 hire fewer less-skilled and inexperienced workers. These workers would then miss the
13 opportunity to earn an income and gain the skills and experience that would allow them
14 to earn higher wages in the future. Also, businesses forced to pay higher wages may offer
15 fewer benefits, raises, and training opportunities. Further, many minimum wage workers
16 do not live in low-income households or earn the minimum wage for long. Instead of
17 increasing the minimum wage for all workers, existing programs and tax benefits can help
18 low-income workers in need.

19 3) Since changes to the state constitution require voter approval, putting the
20 minimum wage in the state constitution will make it difficult to respond quickly to future
21 economic and labor conditions. Also, adjusting the minimum wage each year for inflation
22 could contribute to continuing higher prices for Colorado consumers. Further, businesses
23 will be required to pay workers higher wages each year regardless of their qualifications
24 or performance and the financial condition of the business or the economy.

25 **Estimate of Fiscal Impact**

26 *State spending and revenue.* Students employed in work-study positions at state
27 universities and colleges are often paid less than \$6.85 per hour. The difference between
28 current student wages and the wages required by Amendment 42 could cost the state up to
29 \$2.8 million annually. The actual state cost will depend on the options used by the
30 legislature or schools to address the higher wages, such as providing more state money to
31 the schools, increasing fees or tuition, or reducing the number of work study hours
32 available to students. All other state employees are currently paid above \$6.85 per hour.
33 Presently, it is unknown whether the amendment will affect state revenue from income or
34 sales tax collections. Any change in tax revenue cannot be quantified at this time.

35 *Local government impact.* The fiscal impact of the amendment on local
36 government has not been estimated, though expenditures would increase for those local
37 governments that currently pay workers at or near the minimum wage. Any change in local
38 tax revenue cannot be quantified at this time.