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EXECUTIVE SUMMARY

On April 12, 2005, then-Governor Richard Codey signed Public Law 2005, chapter 70, which provided for an increase in New Jersey's minimum wage from \$5.15 per hour to a rate of \$6.15 per hour as of October 1, 2005, and to \$7.15 per hour as of October 1, 2006. This law also established the New Jersey Minimum Wage Advisory Commission (referred to herein as the "Commission"). The Commission was charged with reporting annually to the Governor and the Legislature on its findings regarding the adequacy of the minimum wage and its recommendations as to whether the minimum wage should be increased and to what level. The law requires the first annual report to be submitted between October 1, 2007 and December 31, 2007, and requires subsequent reports to be provided in one-year intervals thereafter.

Our analysis reveals that:

- New Jersey's minimum wage rate of \$7.15 per hour is not adequate to maintain the purchasing power that this wage level commanded in October 2006.
- The overall cost of living in New Jersey is higher than the national average by a factor ranging from 24.8 percent to 31.0 percent above the national index, while housing costs range on average from 43.6 percent to 76.9 percent higher than the national average.
- The purchasing power of the minimum wage has declined over the past 25 years. In fact, from 1992 — when New Jersey's minimum wage was \$5.05 — through 2004, there was only one small increase to \$5.15 in 2000. The virtually stagnant rate over this period negatively impacted the purchasing power of New Jersey's minimum wage earners. Similarly, if the minimum wage is maintained at its current level, its relative value will deteriorate in the future, causing an inflation-induced pay cut that will increase the difficulty for families who solely depend on the minimum wage to purchase basic needs.
- New Jersey's current minimum wage of \$7.15 is barely sufficient to maintain a single-parent family of two above the poverty line in 2007 and is insufficient for larger family sizes with a single wage earner. Unless the minimum wage is indexed annually to maintain its purchasing power, many households headed by minimum wage workers will soon fall below the poverty line.

The Commission's deliberations included several meetings and careful consideration of the written public comments and testimony received in response to a request for written public

comments published in the *New Jersey Register* and on the Department of Labor and Workforce Development website on March 19, 2007.

After considering several options, the majority of the Commission agreed to the following recommendation: **New Jersey should set the minimum wage at \$8.25 per hour immediately (the poverty threshold wage for a three-person family in 2007), and should subsequently provide an automatic annual cost-of-living increase of the minimum wage, indexed to the Consumer Price Index for All Urban Consumers in the Northeast Metropolitan Region.**

FINDINGS

The Commission finds that New Jersey's minimum wage rate of \$7.15 per hour is not adequate to maintain the purchasing power that workers earning this wage level enjoyed in October 2006. Furthermore, under the factors specified in the statute that established the Commission, the current minimum wage is insufficient to support a full-time worker in New Jersey.

I. Adequacy of the minimum wage relative to the overall cost of living in New Jersey

New Jersey's cost of living is one of the highest in the country. The overall cost of living¹ in New Jersey is higher than the national average by a factor ranging from 24.8 percent to 31.0 percent above the national index (see table 1). As Figure 1 reveals, between 1980 and 2004 the cost of living² in New Jersey on average rose annually by 3.5 percent, 56 percent faster than the minimum wage. Because the adjustments to the minimum wage have not occurred with regularity, the minimum wage has not kept pace with increases in the cost of living. More specifically, the fact that the minimum wage went unchanged from 1981 to 1990 and 1998 to 2004 negatively impacted the purchasing power of New Jersey's minimum wage earners.

The two most recent increases in the New Jersey minimum wage, in 2005 to \$6.15 per hour and in 2006 to \$7.15 per hour, restored some of the lost value of the minimum wage. For example, over the period from 1998 to 2006, the New Jersey minimum wage increased by 39 percent, compared to a 27 percent increase in the Consumer Price Index for All Urban Consumers in the Northeast Metropolitan Region (CPI-U). Those two increases to the New Jersey minimum wage in 2005 and 2006 served as a short-term counterweight to the reductions in the purchasing power of minimum wage workers and their families.

However, as Figure 2 shows, for long time periods in the state's recent history, the real value of the minimum wage fell below its current level of \$7.15 per hour (in constant 2007 dollars). If New Jersey provides no further increase in the minimum wage beginning in 2007, the relative value of the minimum wage will once again begin to decline compared to the overall cost of living in the State.

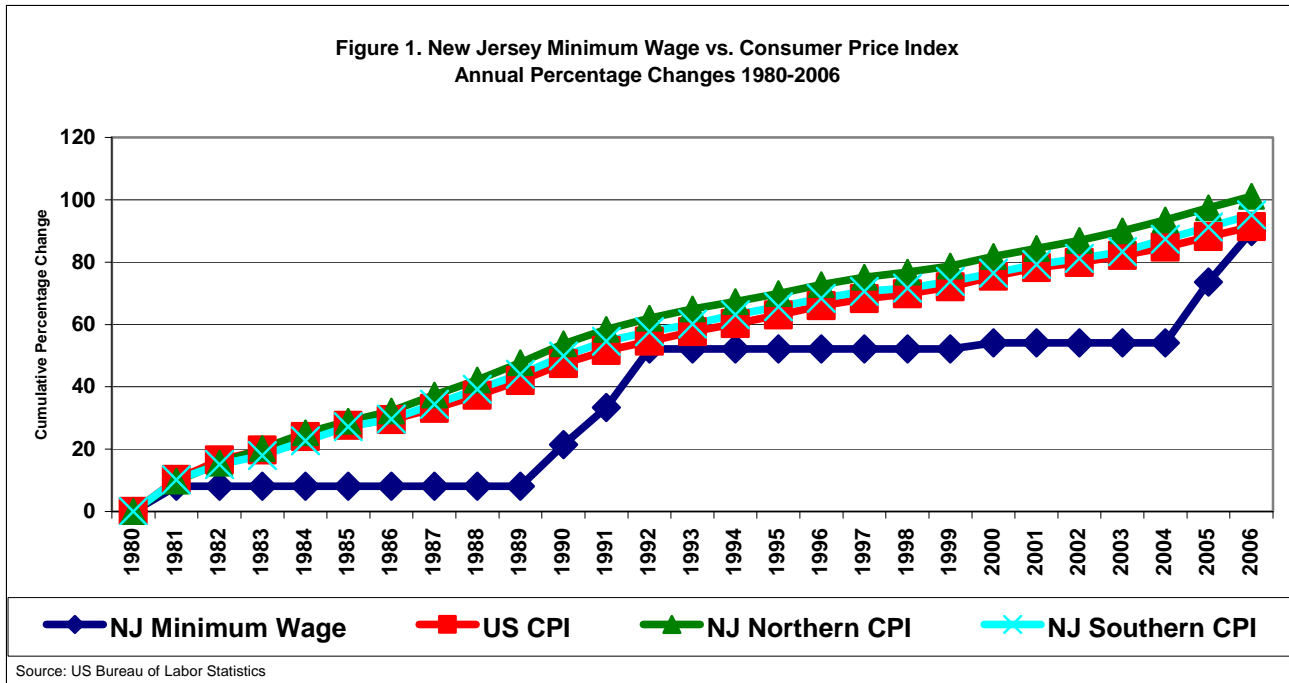
¹ The ACCRA Cost of Living Index measures relative price levels for consumer goods and services in participating areas for a mid-management standard of living. The nationwide average equals 100, and each index is read as a percent of the national average. The index does not measure inflation, but compares prices at a single point in time. Excludes taxes. Source: ACCRA, Louisville, KY 40206-6749, ACCRA Cost of Living Index, (copyright). This table is located on the US Census webpage. www.census.gov/compendia/statab/tables/07s0709.xls

² Consumer Price Index for All Urban Consumers located in New York-Northern New Jersey-Long Island, NY-NJ-CT-PA.

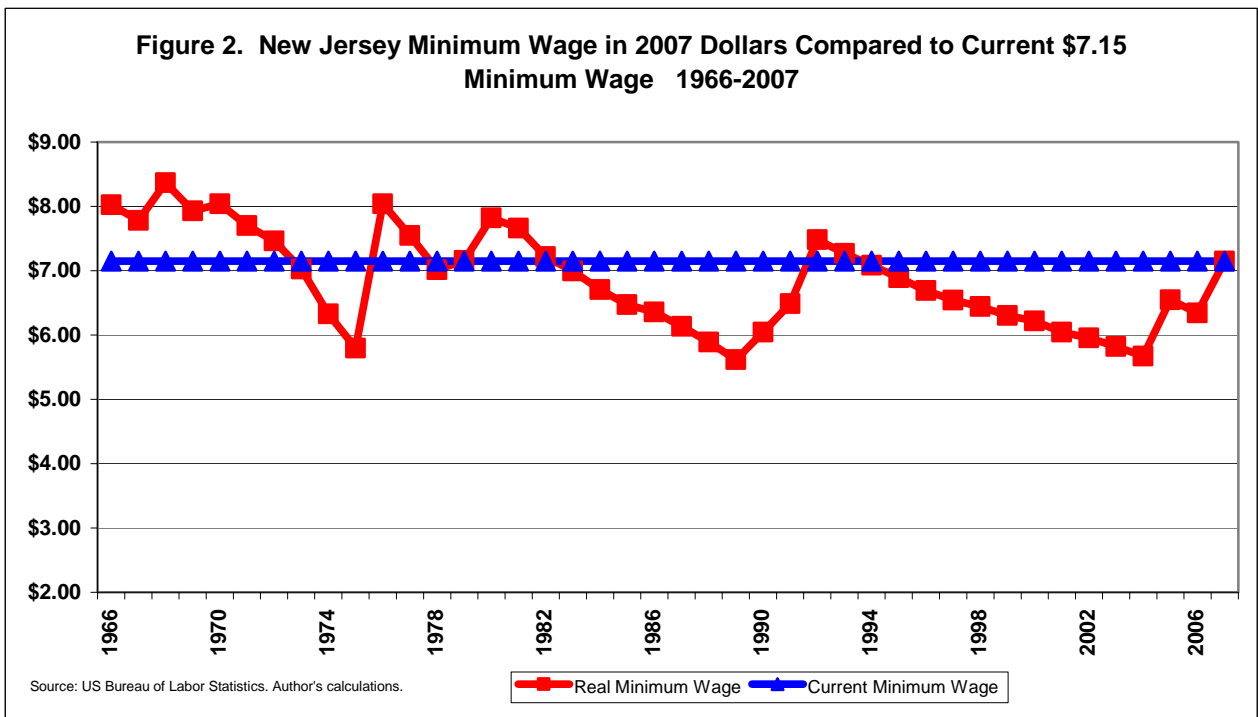
New Jersey's Cost of Living is 24% - 31% Higher than the National Average

Table 1. Cost of Living Index First Quarter 2007, Selected Metropolitan Areas							
	Composite Index	Grocery items	Housing	Utilities	Transportation	Health Care	Miscellaneous Goods and Services
Weight	100.0%	13.0%	28.0%	10.0%	10.0%	4.0%	35.0%
Metropolitan Area							
New York-White Plains-Wayne New York-New Jersey Metro Division:							
Bergen-Passaic	131.0	110.3	176.9	107.9	108.3	108.6	117.5
Edison, New Jersey Metro Division:							
Middlesex-Monmouth	129.1	109.7	172.3	107.7	109.7	109.4	115.5
Newark-Union, New Jersey-Pennsylvania Metro Division:							
Newark-Elizabeth	129.7	118.8	167.4	108.3	109.9	107.8	118.5
Dover, Delaware Metro Division							
Dover, Delaware	105.2	111.9	97.8	334.9	106.7	105.7	99.7
Wilmington, Delaware-Maryland-New Jersey Metro Division							
Wilmington, Delaware	110.2	121.5	103.8	130.3	108.7	116.4	105.1
Nassau-Suffolk, New York Metro Division:							
Nassau County, New York	150.4	129.8	231.1	140.7	108.8	115.8	112.0
Erie, Pennsylvania Metro:							
Erie, Pennsylvania	98.1	95.4	89.5	130.2	101.8	94.7	96.1
Lancaster, Pennsylvania Metro:							
Lancaster, Pennsylvania	107.1	98.1	119.8	105.8	103.5	96.8	102.8
Philadelphia, Pennsylvania Metro Division:							
Philadelphia, Pennsylvania	124.8	127.8	143.6	117.0	112.7	109.0	116.2
Rochester, New York Metro:							
Rochester, New York	99.4	98.9	84.8	109.2	110.1	103.9	104.8
Syracuse, New York Metro:							
Syracuse, New York	99.2	99.2	80.2	116.8	110.6	96.5	106.4
Pittsburgh, Pennsylvania Metro:							
Pittsburgh, Pennsylvania	104.1	96.8	99.4	109.6	115.2	91.1	107.4
<p style="margin: 0;"><i>Source: ACCRA, Louisville, KY 40206-6749, ACCRA Cost of Living Index, (copyright). This table is located on the US Census webpage. www.census.gov/compendia/statab/tables/07s0709.xls</i></p> <p style="margin: 0;"><i>Note: The cost of living for southern New Jersey counties are represented by the Philadelphia Metro Area Index.</i></p>							

25 Years of Lost Purchasing Power



Today's Minimum Wage Buys Less than it did in the 1960s and



1970s

II. Adequacy of the minimum wage relative to changes in the components of the cost of living which have the greatest impact on low-income families, including increases in the cost of housing, food, transportation, health care and child care

The statute that created the Commission also assigns us the task of identifying changes in the cost of living in certain components that represent essential purchases for low-income families. Generally, low-wage workers have little or no bargaining power to negotiate their wages. A large body of research suggests that low-wage workers typically do not receive annual pay increases, which further deteriorates their household's ability to keep pace with inflation. In other words, these low-income working families face real difficulties making ends meet. More often than not they struggle to meet their basic needs in the areas of food, housing, transportation, child care, clothing, and other necessities as these items increase in cost. Therefore, these families routinely face difficult decisions regarding how to allocate scarce funds to the purchase of their basic needs.

As shown in Table 1, the largest single factor driving up the overall cost of living in New Jersey is the cost of housing, which far exceeds average housing prices in the nation. Housing costs in New Jersey range on average from 43.6 percent to 76.9 percent higher than the national average. Moreover, the rate of increase in housing costs in New Jersey has outpaced the increase evidenced at the national level. Since 1990, the single-family housing price index has risen by 140.0 percent in New Jersey compared with 127.0 percent nationally. The fact the minimum wage has not kept pace with inflation created an additional burden for those families that mainly rely on income from a minimum wage earner.

It is more likely than not that an individual working at the minimum wage rate would not purchase a home, especially given the cost of homes in New Jersey. A more realistic housing expenditure would be costs associated with rent and utilities. Table 2 presents housing data from the U.S. Department of Housing and Urban Development (HUD's) Fair Market Rents (FMR) survey. FMRs are gross rent estimates. They include the shelter rent plus the cost of all tenant-paid utilities, except telephones, cable or satellite television service, and internet service. FMR's are established for units of varying size (0 – 4 bedrooms) for every county in New Jersey.

Table 2. HUD Proposed FY 2008 Fair Market Rent for All Bedroom Sizes					
Efficiency	1 Bedroom	2 Bedrooms	3 Bedrooms	4 Bedroom	County
\$786	\$866	\$1,033	\$1,310	\$1,469	Atlantic
\$1,001	\$1,120	\$1,256	\$1,551	\$1,786	Bergen
\$682	\$781	\$932	\$1,116	\$1,327	Burlington
\$682	\$781	\$932	\$1,116	\$1,327	Camden
\$697	\$712	\$895	\$1,172	\$1,207	Cape May
\$756	\$759	\$956	\$1,162	\$1,224	Cumberland
\$790	\$965	\$1,103	\$1,320	\$1,460	Essex
\$682	\$781	\$932	\$1,116	\$1,327	Gloucester
\$967	\$1,022	\$1,192	\$1,445	\$1,556	Hudson
\$1,099	\$1,139	\$1,340	\$1,682	\$1,983	Hunterdon
\$810	\$932	\$1,120	\$1,338	\$1,502	Mercer
\$1,099	\$1,139	\$1,340	\$1,682	\$1,983	Middlesex
\$887	\$1,025	\$1,251	\$1,630	\$1,769	Monmouth
\$790	\$965	\$1,103	\$1,320	\$1,460	Morris
\$887	\$1,025	\$1,251	\$1,630	\$1,769	Ocean
\$1,001	\$1,120	\$1,256	\$1,551	\$1,786	Passaic
\$682	\$781	\$932	\$1,116	\$1,327	Salem
\$1,099	\$1,139	\$1,340	\$1,682	\$1,983	Somerset
\$790	\$965	\$1,103	\$1,320	\$1,460	Sussex
\$790	\$965	\$1,103	\$1,320	\$1,460	Union
\$769	\$861	\$1,007	\$1,205	\$1,241	Warren

Source: US Department of Housing and Urban Development

As shown in the above table, housing costs consume a large share of a family's budget, especially for low-income working families. The proposed average cost of a two-bedroom apartment in New Jersey ranged from \$895 to \$1,340 per month, or \$10,740 to \$16,080 per year, according to HUD. For someone working full-time at the minimum wage, at these costs, rent and utilities will consume 72 percent of their wages even at the lowest rent of \$895. Housing is unaffordable for minimum-wage workers in many areas throughout the state. Even after the federal minimum-wage increase takes full effect in 2009, the cost of a two-bedroom apartment will still be out of reach for a minimum-wage worker in parts of the state. It must be noted that low-income families may be eligible for housing subsidies and this calculation does not account for subsidized housing.

The cost of grocery items in New Jersey ranges on average from 9.7 percent to 18.8 percent higher than the national average. Health care and utilities costs in New Jersey are on average about 8 percent higher than the national average. Transportation costs in New Jersey are about 9 percent higher than the national average. Additionally, miscellaneous goods and services, the largest component of the index, on average cost about 17 percent more in New Jersey than the national average.

Families that rely mainly on wages from a minimum-wage earner also face significant challenges in paying for child care, especially if a child care subsidy is not available. Families that rely on minimum-wage earnings are likely not to be able to afford child care expenses for one child, let alone for two or more children. Also shown in Table 3, in 2005, child care in a licensed facility cost an average of \$661 per month, while full-time care for two preschoolers cost an average of \$1,066. Low-income working families that need child care but cannot afford it have limited options.

Table 3. Itemized Basic Family Budget for New Jersey Residents

Family Size	Child Care	Food	Health Care	Housing	Miscellaneous	Taxes	Transportation	Total
Adult	\$0	\$221	\$104	\$867	\$135	\$305	\$159	\$1,792
Adult +Preschooler	\$661	\$337	\$254	\$1,022	\$244	\$543	\$162	\$3,223
2 Adults + preschooler	\$1,066	\$726	\$317	\$1,022	\$344	\$699	\$313	\$4,488

Source: Diane Pearce. The Real Cost of Living in 2005: The Self-Sufficiency Standard for New Jersey, June 2005

As shown in Figures 3 through 7 below, over the past 25 years, the costs of housing, food, transportation, health care and child care have generally grown at a faster annual rate than the New Jersey minimum wage. Throughout these years, due to infrequent increases, the minimum wage either remained flat or declined in inflation-adjusted terms.

The series of increases to the minimum wage that occurred between 1990 and 1992 and the increases in 2005 and 2006 did not yield an overall rate of growth in the minimum wage over the past quarter century that kept pace with the overall growth in the cost of the basic needs components of housing, health care, and child care, although the overall growth of the minimum wage over the past 25 years did slightly exceed the overall increase in costs of food and transportation. However, if the minimum wage remains at its current level, its relative

value will deteriorate in the future. This would result in an inflation-induced pay cut, thereby making it difficult for families who solely depend on the minimum wage to purchase basic needs.

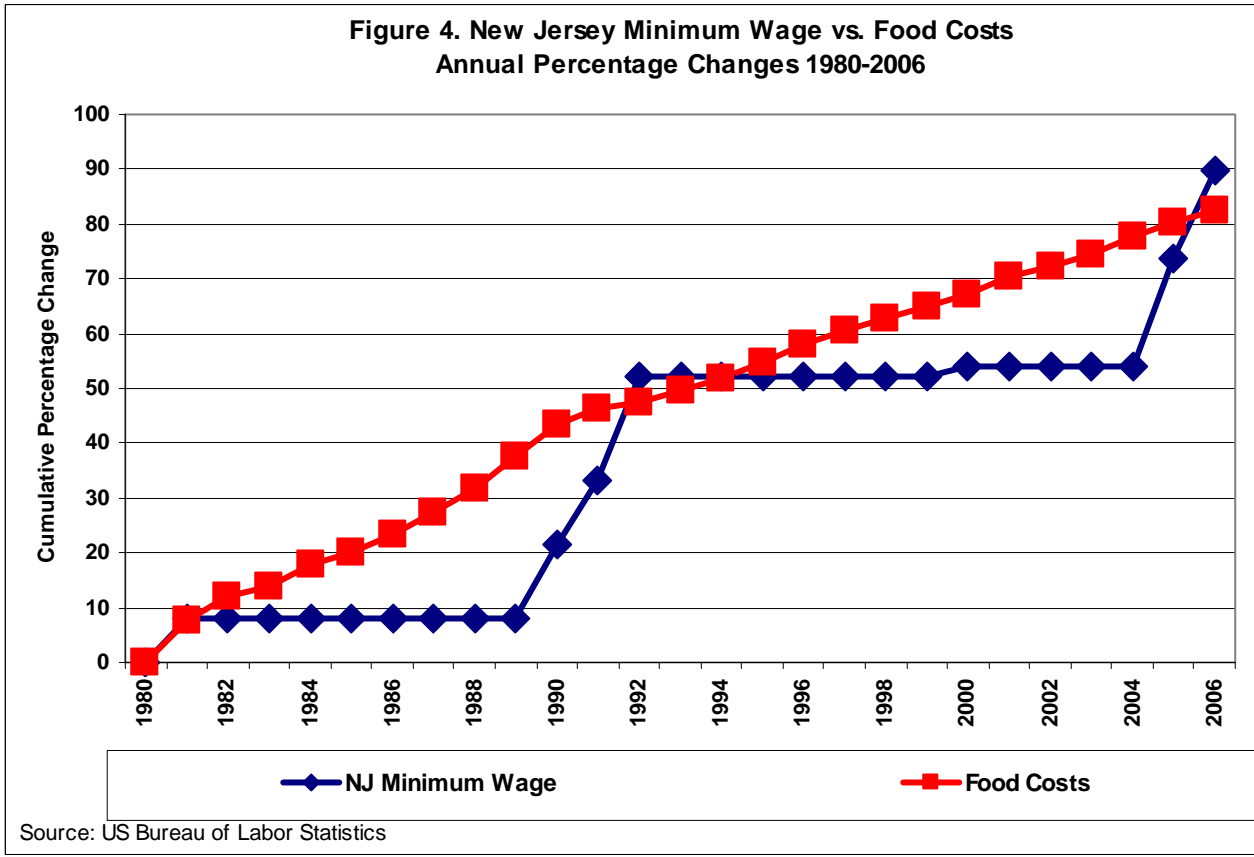
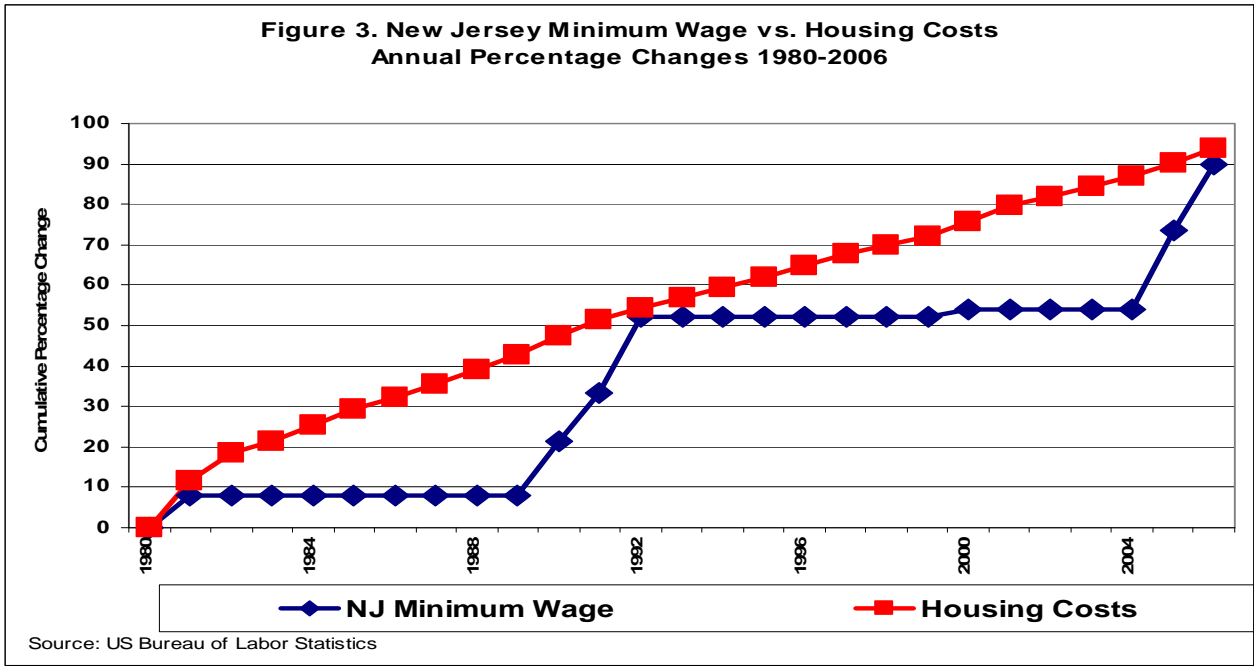
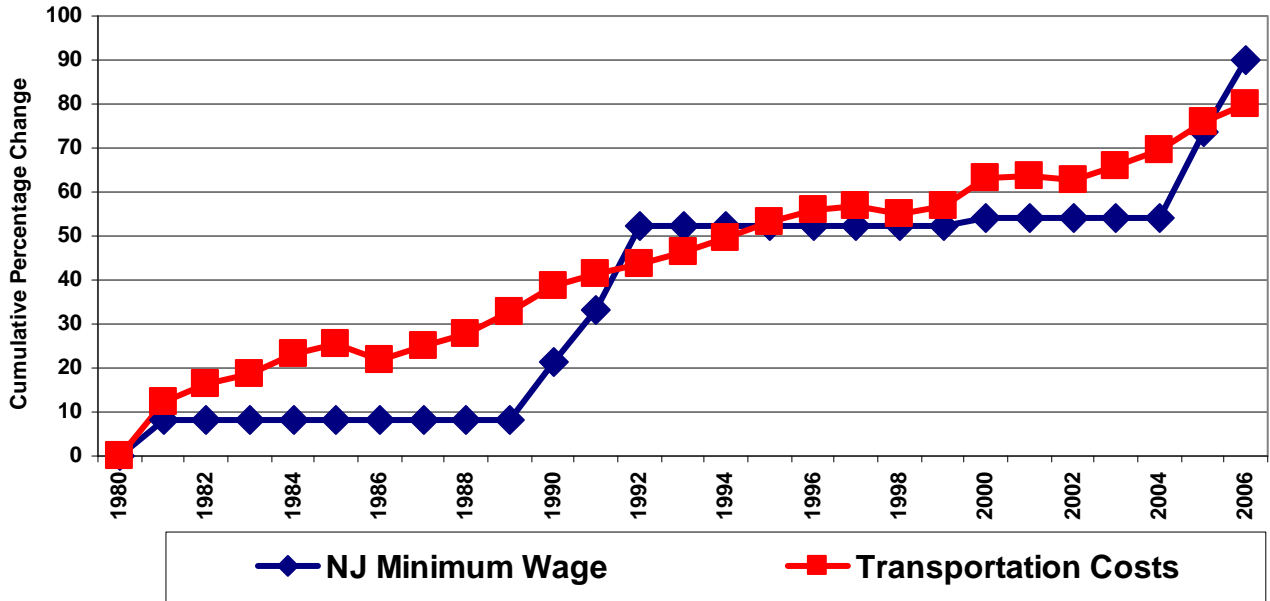
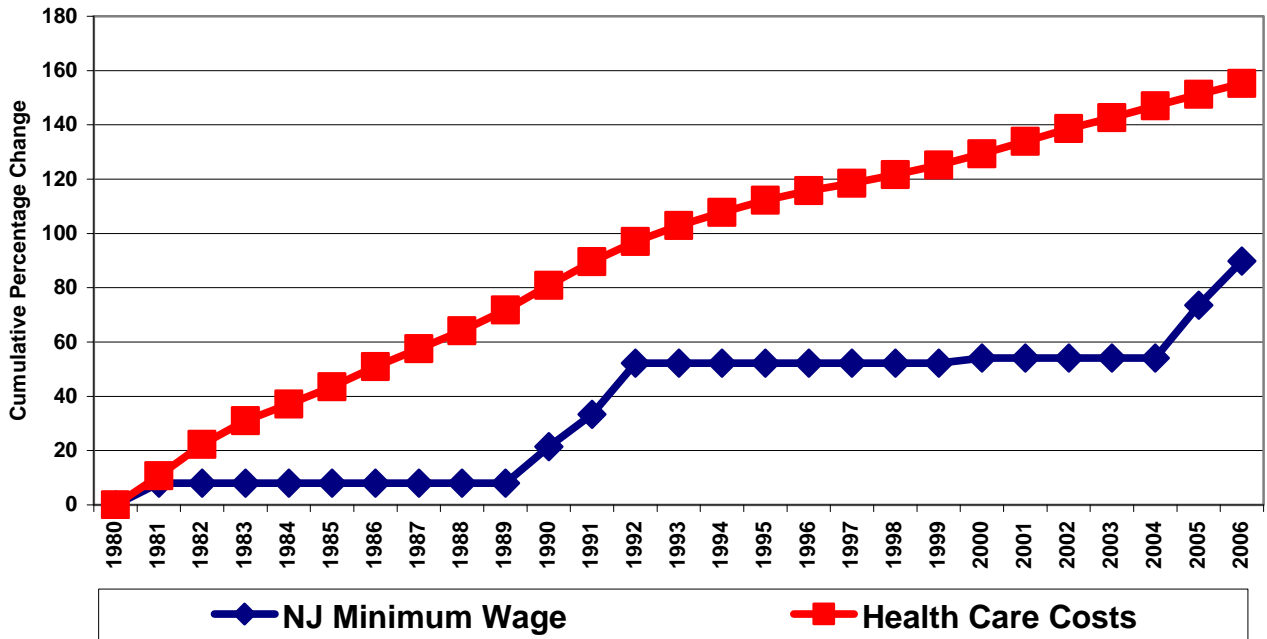


Figure 5. New Jersey Minimum Wage vs. Transportation Costs
Annual Percentage Changes 1980-2006



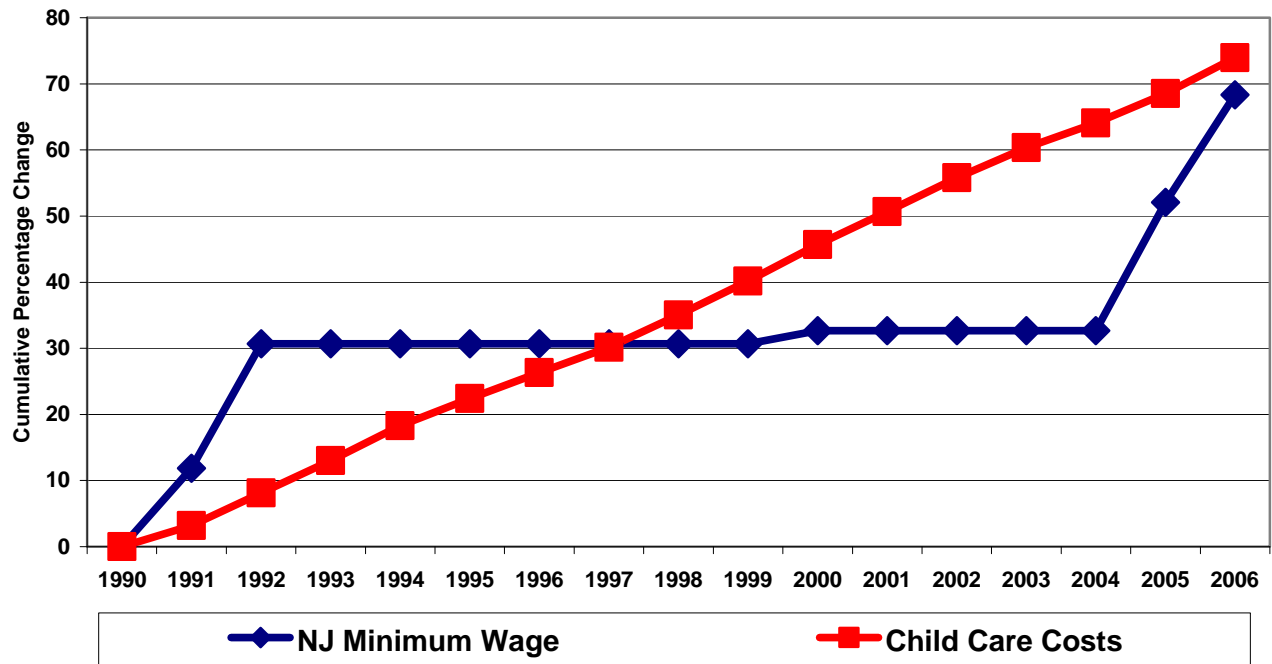
Source: US Bureau of Labor Statistics

Figure 6. New Jersey Minimum Wage vs. Health Care Costs
Annual Percentage Changes 1980-2006



Source: US Bureau of Labor Statistics

**Figure 7. New Jersey Minimum Wage vs. Child Care Costs
Annual Percentage Changes 1990-2006**



Source: US Bureau of Labor Statistics

III. Adequacy of the minimum wage relative to the cost of living in New Jersey compared to that of other states

Compared to the cost of living in our neighboring states, it costs 21.5 percent more to live in New Jersey than in Pennsylvania and 20.6 percent more than in Delaware, but 8.2 percent less than in New York (see Table 1).

Table 4. Trajectory of Minimum Wage in New Jersey and Selected States			
State	2007	2008	2009
New Jersey	\$7.15	\$7.15	\$7.15
Connecticut	\$7.65	\$7.65	\$7.65
Massachusetts	\$7.50	\$8.00	\$8.00
New York	\$7.15	\$7.15	\$7.15
Pennsylvania	\$7.15 (as of 7/01/07)	\$7.15	\$7.15
Delaware	\$6.65	\$7.15	\$7.15
California	\$7.50	\$8.00	\$8.00

As shown in Table 4, all of New Jersey's neighboring states have established minimum wage rates that are greater than the federal minimum wage for 2007. Two high-income states with which New Jersey is often compared, Connecticut and Massachusetts, have planned increases to their state minimum wage rates to the levels of \$7.65 per hour and \$8.00 per hour, respectively. New York and Pennsylvania's minimum wages are identical to New Jersey's. Delaware's minimum wage is lower than New Jersey's, but is scheduled for an increase that will catch it up with New Jersey by 2008. In addition, ten states are currently indexing their minimum wage rates to the Consumer Price Index for All Urban Consumers (CPI-U): Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont, and Washington. As a result of their laws providing annual cost-of-living increases to the minimum wage, many of these states will soon have minimum wage rates that are higher than that of New Jersey.

IV. Adequacy of the minimum wage relative to changes in the purchasing power of the minimum wage

Due to inflation, the purchasing power of the minimum wage has declined over the past 25 years. As shown in Figure 1, between 1980 and 2004, the purchasing power of the New Jersey minimum wage significantly declined by almost 30 percent. Even after the two most recent increases in 2005 and 2006, New Jersey's minimum wage still has less real purchasing power than it did in 1980. As Figure 2 illustrates, throughout most of the 1960s and 1970s, the real purchasing power of the minimum wage exceeded the current wage rate of \$7.15 per hour; in four of these years, New Jersey's minimum wage rate was set at a level equivalent to more than \$8.00 per hour in 2007 dollars.

Another way to measure the relative value of the minimum wage is to compare it to the average wage in the state, which typically grows at a faster rate than inflation. When compared to the average private sector non-supervisory wage, the minimum wage has fallen from a high of 56 percent in 1950 to a low of 23 percent in 2005.³ Compared to the average hourly wage, the minimum wage in New Jersey has declined from 44 percent in 1997 to a low of 34.5 percent before the increase in October 2005.⁴ Even after the increase in 2006 to \$7.15 per hour, the minimum wage is only 41.1 percent of the state's average hourly wage, because other wages grew at a greater rate. From 1980 to 2005, New Jersey's average annual wage increased from \$15,199 to \$49,461, a 225 percent increase. Over the same time period, the minimum wage grew much more modestly, increasing from \$3.35 an hour in 1980 to \$6.15 an hour in 2005, an

³ Economic Policy Institute. *Minimum Wage Issue Guide: Facts at a Glance*. Retrieved May 20, 2007 from http://www.epi.org/content.cfm/issueguides_minwage

⁴ New Jersey Department of Labor and Workforce Development, Labor Market and Demographic Research, Quarterly Census of Employment and Wages Program.

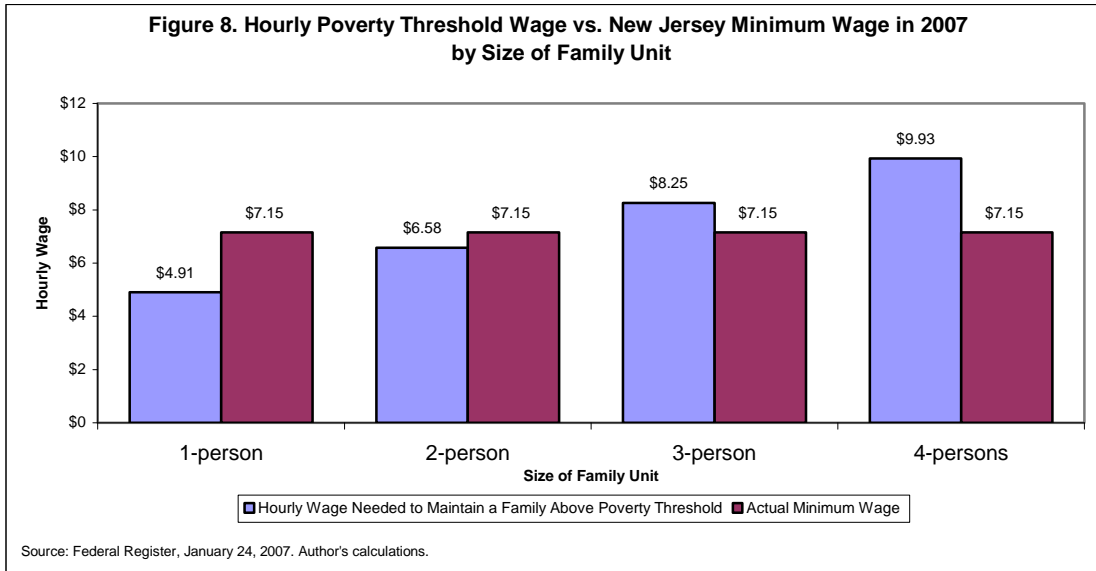
appreciation of only 84 percent. The growth in the average annual wage over that time period was almost triple the growth rate of the minimum wage established in New Jersey. In addition, from 1981 to 1989, the average annual wage in New Jersey⁵ increased from \$16,529 to \$26,791, a gain of 62.1 percent. Over the same period, the minimum wage went unchanged. Likewise, from 1997 to 2004, the average wage or salary in New Jersey increased from \$37,529 to \$48,069, a gain of 28.1 percent. Again, the minimum wage remained static during that time period, and the purchasing power of the minimum wage declined by 16 percent.

V. Adequacy of the minimum wage relative to changes in the value of the minimum wage compared to economic indices

i. The Federal Poverty Guidelines

When the federal poverty guidelines were introduced in the United States in 1969, they were heavily influenced by the standard of living that prevailed in the 1950s. The federal poverty standard was based on the cost of a single item, food, which at that time accounted for a third of total expenditures for basic needs. Hence, poverty thresholds were determined by multiplying the food budget by three. Poverty thresholds therefore change in response to changes in prices. However, it is widely recognized among economists and other social scientists that the official poverty benchmark is too low. This is because it is calculated using an outdated approach which does not reflect the actual costs of providing for basic necessities other than food, including housing, healthcare and child care. Moreover, it does not take into account regional differences in the cost of living.

⁵ New Jersey Department of Labor and Workforce Development, Labor Market and Demographic Research, Quarterly Census of Employment and Wages Program

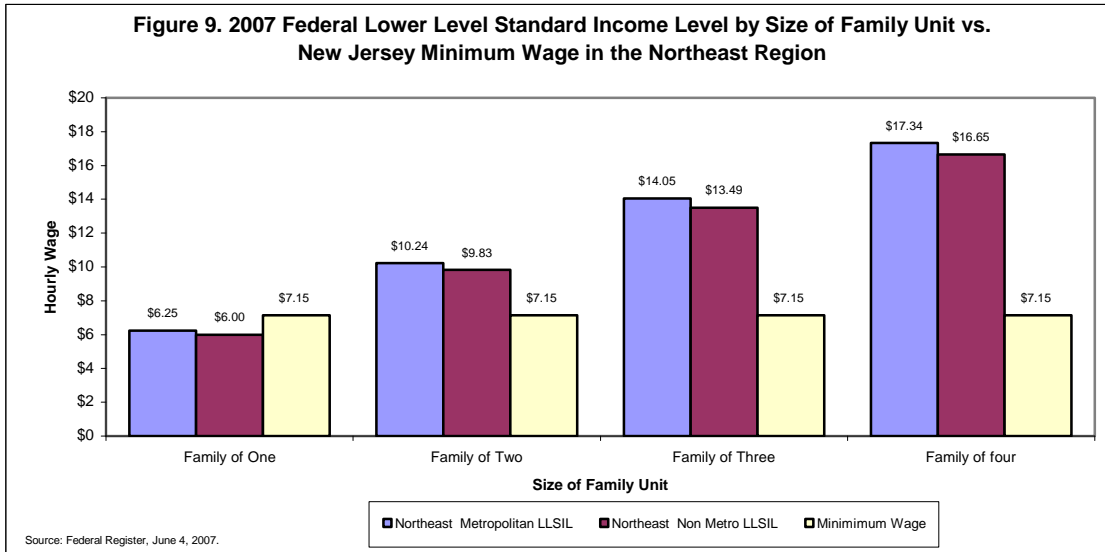


An appropriate metric for adequacy is whether a minimum wage rate is sufficient to allow a full-time worker to live above the poverty threshold. For example, someone who works full-time for 52 weeks at \$7.15 per hour would earn \$14,872 over a year. Figure 8 compares the 2007 New Jersey minimum wage of \$7.15 with the lowest wage rate needed for a family to stay above the poverty threshold (the “poverty threshold” wage).

Many, though not all, minimum wage earners are adults whose income supports themselves and their family. According to data from the New Jersey Department of Labor and Workforce Development, nearly 40 percent of minimum wage workers are in the 25 - 64 age group and some are their household’s primary breadwinner. In New Jersey, one-fifth of families with three or more persons have only one person working in the family. New Jersey’s current minimum wage would keep a two-person family unit above the federal poverty threshold. However, the minimum wage is not sufficient to maintain family units of sizes greater than two above the poverty threshold.

ii. Federal Lower Living Standard Income Level

The Lower Living Standard Income Level (LLSIL) is a minimum standard measure used by the U.S. Department of Labor. LLSIL depicts a family’s minimum income needs by major geographic and metropolitan areas. Figure 9 compares New Jersey’s current \$7.15 minimum wage with the hourly-wage equivalent of the LLSIL in metropolitan and non-metropolitan areas for various family sizes. Changes in the LLSIL are usually reflective of the cost of living as measured by the CPI-U. Between 1998 and 2005, the cost of living increased by 19.3 percent while the minimum wage remained unchanged.



Using the LLSIL measure, a family of two or more with one income earner is not able to meet the minimum standard of living at the current minimum wage. A family of four with a single wage earner would require an hourly wage that is twice the amount of New Jersey’s minimum wage just to meet these minimum living standards.

iii. The Self-Sufficiency Standard

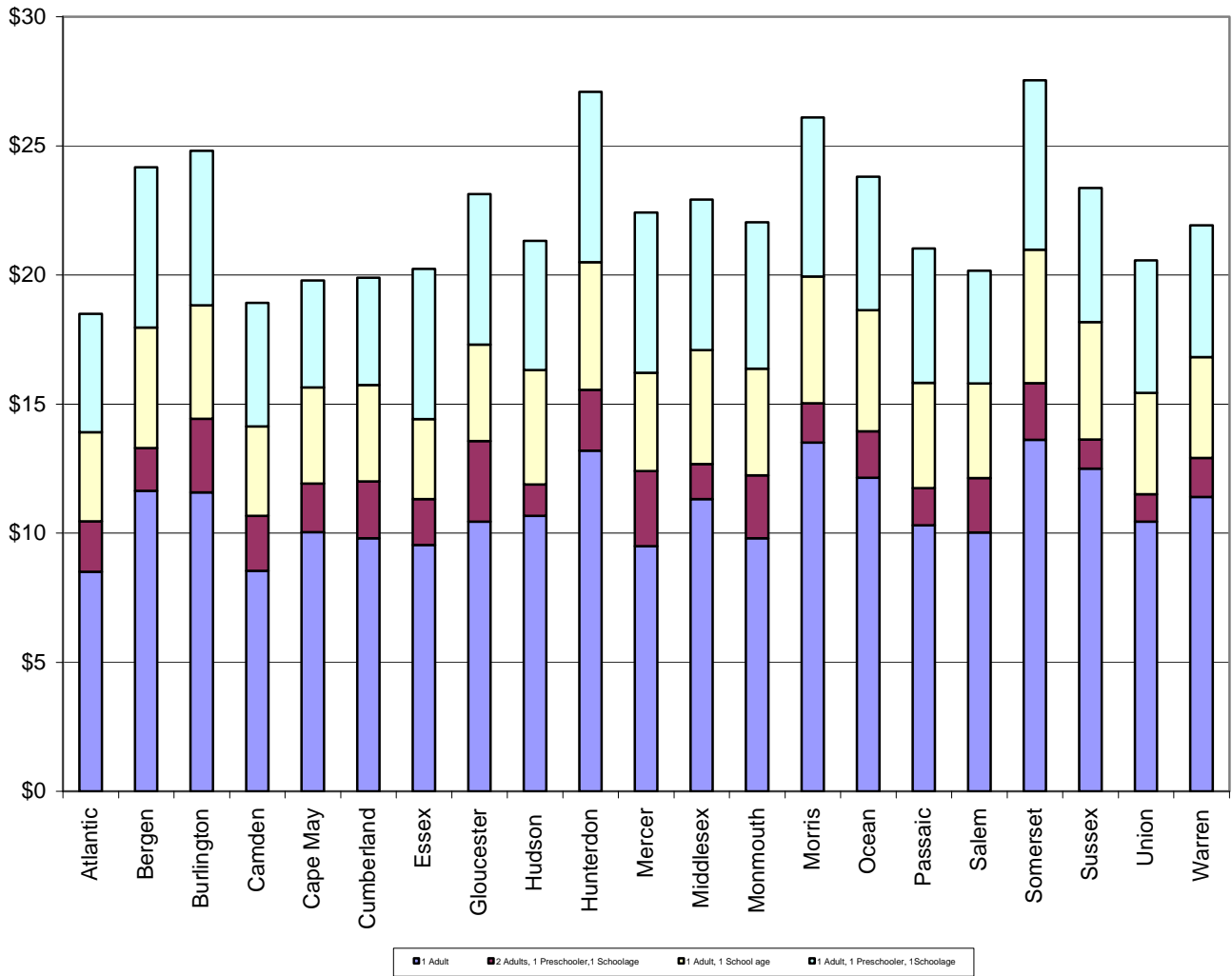
Recently, a study conducted by the Legal Services of the New Jersey Poverty Research Institute (NJPRI)⁶ revealed that a one-adult household in New Jersey required between \$7.99 and \$12.64 an hour to cover the cost of basic needs in 2005, depending on the location. The study also revealed that, the average amount spent on food in New Jersey ranged from 10 to 21 percent of the basic family budget, and the share spent on child care ranged from 19 to 30 percent of the basic family budget (the percentage depends on the location and size of household).

While variations in the cost of health, child care, transportation, and food are negligible across New Jersey, differences in the cost of housing are very significant in different areas of the state. For example, the cost of housing in the Middlesex-Somerset-Hunterdon area is almost 50 percent higher than that in the Atlantic-Cape May region. Furthermore, when adjusting for inflation in 2007, the wage rate that would have been necessary to allow an adult living alone to be “self-sufficient” and able to cover the cost of all basic needs would have been \$8.51 in Atlantic County and \$13.51 in Morris County (Figure 10). By the same reasoning, a family with one adult, one preschooler and one child of school age in Atlantic County would have required an hourly wage rate of \$18.49 while the same family living in Morris County would have needed an hourly wage of \$27.54 to be self-sufficient.

⁶ Diane Pearce. *The Real Cost of Living in 2005: The Self-Sufficiency Standard for New Jersey*. June 2005.

It should be noted that the rate of growth of the self-sufficiency wage in the northeast region is 60 percent greater than the inflation rate in the region. Between 1999 and 2005, the average self-sufficiency wage for a single-person household increased by 27.6 percent (from \$7.96 to \$10.16) while the CPI-U increased by only 17.2 percent during that period.

Figure 10. Self Sufficiency Wage by County and Size of Family Unit in 2007



Source: Diane Pearce. The Real Cost of Living in 2005: The Self-Sufficiency Standard for New Jersey. June 2005. All data in the Table were adjusted for inflation using the CPI-U index for the Northeastern region.

THE EFFECT OF DIFFERENT POLICY OPTIONS ON THE PURCHASING POWER OF THE MINIMUM WAGE

Raising the minimum wage and providing an automatic cost of living adjustment each year would restore the value lost to inflation and would ensure that the minimum wage keeps pace with the cost-of-living in the future. As discussed earlier, the current minimum wage of \$7.15 is barely sufficient to maintain a family of two persons above the poverty threshold and is not adequate for larger family sizes. For New Jersey's working families who depend on minimum wage earnings not to fall below the poverty line, the minimum wage must keep pace with the cost of living in the state.

The Commission believes that in order for New Jersey's minimum wage to keep pace with increases in the cost of living, an annual adjustment mechanism must be created. One common measure of inflation is the Consumer Price Index for All Urban Consumers (CPI-U). The CPI-U measures the average change over time in the prices paid by urban consumers for commonly purchased goods and services. Indexing the minimum wage to the CPI-U would adjust the State's minimum wage rate by the same percentage that inflation changes each year. As noted above, ten states currently use CPI-U Index mechanism to annually adjust their minimum wage rate: Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont, and Washington.

An alternative to indexing the minimum wage to the CPI-U would be to index to the state's average wage. Given the manner in which wages respond in periods of economic downturn, the Commission recommends indexing to the CPI-U rather than using the Statewide Average Weekly Wage. During periods of low inflation or economic expansion, average wages grow faster than inflation, whereas during periods of high inflation or economic downturn, a minimum wage indexed to inflation would grow faster than average wages. We believe that protecting vulnerable low-wage workers' ability to purchase basic necessities during periods of high inflation should be the most important factor in creating a cost-of-living index. Indexing the minimum wage to inflation as measured by the CPI-U would ensure that the minimum wage keeps pace with the cost of living and would protect the earnings of low-wage workers from losing ground to inflation. Adjusting the minimum wage annually for inflation would ensure that the minimum wage maintains its value relative to prices in the market.

The Commission examined three options for maintaining the purchasing power of the minimum wage and compared these options to the fourth status quo option of leaving the current minimum wage rate unchanged.

Analysis of Four Options (see Figure 11)

- Option 1:** Increase the minimum wage to \$8.25 at the end of 2007, which is the hourly poverty threshold wage for a three-person family unit (see figure 8) and subsequently increase the minimum wage automatically each year using the inflation index as measured by the CPI-U in the Northeast Metropolitan Region. This option would result in a nominal minimum wage rate of \$10.17 by 2017.
- Option 2:** Beginning at the end of 2007, provide automatic annual increases in the current \$7.15 minimum wage using the inflation index as measured by the CPI-U. This option would require an immediate increase of 22 cents in the minimum wage, and would result in a nominal minimum wage rate of \$9.09 by 2017.
- Option 3:** Increase the minimum wage to \$10.55 at the end of 2007, which is the average self-sufficiency wage in New Jersey for one-adult families and subsequently increase the minimum wage automatically each year using the inflation index as measured by the CPI-U. This option will result in a nominal minimum wage rate of \$13.00 by 2017.
- Option 4:** Leave the current minimum wage unchanged until 2009, when the federal minimum wage increases to \$7.25. Using 2007 as the base year, this option will result in a real minimum wage rate of \$5.88 by 2017, which would represent a 17.7 percent decrease in the real purchasing power of the minimum wage.

To assess the future path of the minimum wage under the options outlined above, the Commission used time series analysis to forecast the CPI-U for the next 10 years. These projections for the CPI-U are an extrapolation of past trends and do not take into account any current or future policy initiative. The 10-year projections for these options are shown in Table 5 and plotted in Figure 11:

**Figure 11. Options for Increasing Minimum Wage
10-Year Projections**

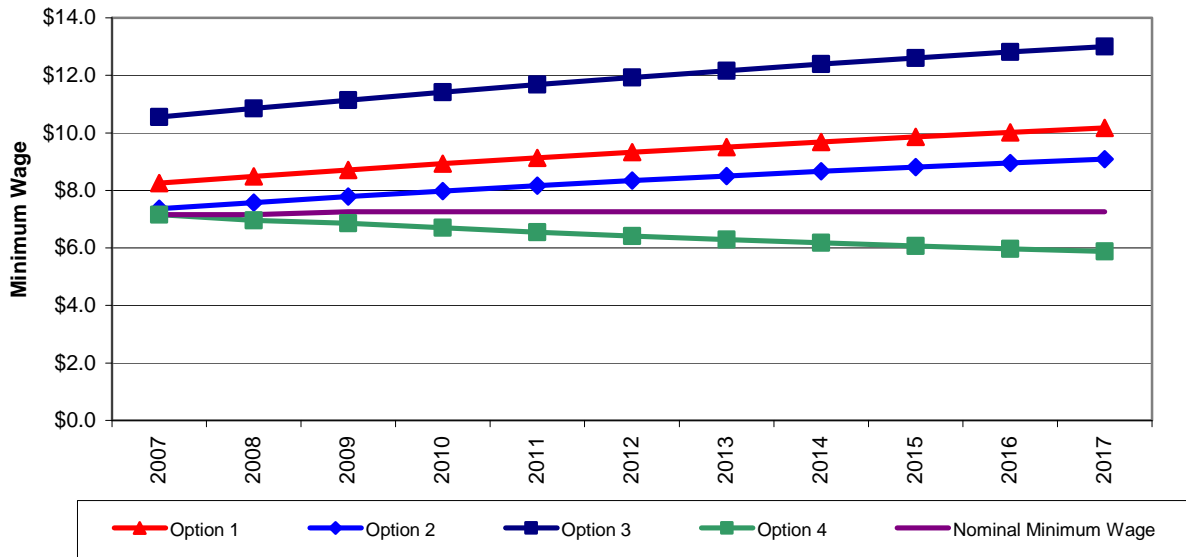


Table 5. Ten-Year Trajectory of Minimum Wage under Four Scenarios

Year	Option 1	Option 2	Option 3	Option 4	Nominal Minimum Wage
2007	\$8.25	\$7.37	\$10.55	\$7.15	\$7.15
2008	\$8.49	\$7.58	\$10.85	\$6.95	\$7.15
2009	\$8.71	\$7.79	\$11.14	6.86*	\$7.25**
2010	\$8.93	\$7.98	\$11.42	\$6.70	\$7.25
2011	\$9.13	\$8.16	\$11.68	\$6.55	\$7.25
2012	\$9.33	\$8.34	\$11.93	\$6.41	\$7.25
2013	\$9.51	\$8.50	\$12.16	\$6.29	\$7.25
2014	\$9.69	\$8.66	\$12.39	\$6.17	\$7.25
2015	\$9.86	\$8.81	\$12.60	\$6.07	\$7.25
2016	\$10.02	\$8.95	\$12.81	\$5.97	\$7.25
2017	\$10.17	\$9.09	\$13.00	\$5.88	\$7.25

Source: US Bureau of Labor Statistics, calculations by N.J. Dept of Labor and Workforce Development

* Increase in real minimum wage reflects the statutory increase in the federal minimum wage to \$7.25 in 2009

** Increase in nominal minimum wage reflects the statutory increase in the federal minimum wage to \$7.25 in 2009

RECOMMENDATION FOR FUTURE INCREASES IN THE STATE MINIMUM WAGE

New Jersey's minimum wage should increase on an annual basis. Minimum wage earners lose purchasing power when the value of the minimum wage grows at a rate slower than inflation. For this reason, the Commission has considered options that would increase the minimum wage each year by indexing the wage rate to an economic indicator: the Consumer Price Index for All Urban Consumers in the Northeast Metropolitan Region. At the state level, Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont, and Washington currently make a similar inflation-indexed adjustment to their state minimum wage each year.

The current minimum wage is inadequate to provide even a poverty-level income for many families in New Jersey. Minimum wage workers in New Jersey earned \$7.15 an hour in 2007, which would provide an annual income of \$14,872 to a full-time worker (working 40 hours per week, 52 weeks per year). This level of income for a family of three would fall \$2,298 below the official 2007 federal poverty level of \$17,170 and is inadequate to meet basic family expenses in any community in New Jersey.

The Commission recommends that New Jersey immediately increase the minimum wage to \$8.25 per hour, which is the poverty threshold wage for a three-person family in 2007. The Commission further recommends that New Jersey enact a law providing an automatic annual adjustment in the minimum wage rate by a percentage equal to the change in the Consumer Price Index for All Urban Consumers in the Northeast Metropolitan Region to retain this level of purchasing power.

A minimum wage rate of \$8.25 per hour would increase the disposable income for low-wage workers and their families. Workers now earning \$7.15 per hour would receive an initial \$1.10 pay raise (\$2,288 per year for full-time workers), coupled with annual raises tied to inflation—a small but significant difference in their living standard. Indexing the minimum wage to inflation would prevent these workers' wages from losing purchasing power in future years. An extra \$2,288 per year could enable minimum wage earners and their families to reduce debt and move closer to self-sufficiency.

650 leading economists, including five Nobel Prize winners, support an increase in the minimum wage, stating “[M]odest increases in state minimum wages in the range of \$1 to \$2.50 and indexing to protect against inflation can significantly improve the lives of low-income workers and their families, without the adverse effects that critics have claimed.”⁷

⁷ “Hundreds of Economists Say: Raise the Minimum Wage,” Economic Policy Institute, Washington, D.C.

Four members of the Commission agreed that the minimum wage should be increased to \$8.25 per hour and subsequently indexed to increase with inflation: Members Hall, Richard, Socolow and Trezza. As explained in Appendix I below, Member Trezza did not support an immediate increase to \$8.25 per hour, and thus did not endorse the Commission's final recommendation. The majority of the Commission, Members Hall, Richard, and Socolow, endorsed the final recommendation to increase New Jersey's minimum wage to \$8.25 per hour immediately and provide an automatic adjustment of the minimum wage rate annually in each subsequent year using a CPI index. The additional views of individual Commission members are noted in Appendix I below.

SUMMARY OF COMMENTS FROM MEMBERS OF THE PUBLIC

Written comments were submitted by the following individuals received in response to a request for written public comments published in the *New Jersey Register* and on the Department of Labor and Workforce Development website on March 19, 2007:

1. Charles Wowkanech & Laurel Brennan, New Jersey State AFL-CIO, Trenton, New Jersey
2. Sam Ferraino, Peg Michalowski, & Sue Mitchell, United Food & Commercial Workers Union Local 1360, West Berlin, New Jersey
3. Patricia Campos, President, New Jersey State Council of UNITE HERE!, Union City, New Jersey
4. Brock Haussman, Bound Brook, New Jersey
5. Kristen Mateo, Legal Services of New Jersey, Edison, New Jersey
6. Jon Shure, New Jersey Policy Perspective, Brennan Center for Justice at New York University School of Law, New Jersey Institute of Social Justice
7. Eileen Appelbaum, Rutgers University School of Management and Labor Relations' Center for Women and Work, New Brunswick, New Jersey
8. Charles N. Hall, Jr., Retail Wholesale and Department Store Union Local 108, Maplewood, New Jersey
9. Alexandra Villacres, North Plainfield, New Jersey
10. John D. Rogers, New Jersey Business and Industry Association, Trenton, New Jersey
11. Ray Nash, LongHorn Steakhouse
12. The following individuals submitted a letter to the Department with significantly similar language:

Jon Aneson, Café Madison / Madison Pub, Riverside, New Jersey; Bruce Blackmore, Jersey Freeze, Inc., Freehold, New Jersey; Larry Boylan, Mays Landing, New Jersey; Fred Kellermann, Elements Café, Mount Laurel, New Jersey; Amy Coss, Milford Oyster Bar, Milford, New Jersey; Stephen Hallet, Wall, New Jersey; Laura Kalinich, New Jersey Restaurant Association, Trenton, New Jersey; Cory Wingerter, Neptune, New Jersey; Sarah C. De Heer, Summit, New Jersey; Ray Cosgrove, Bahrs Landing and Marina, Highlands, New Jersey; Al Green, E & A Supply, Plainfield, New Jersey; Karen Vitale, New Jersey Restaurant Association, Hamilton, New Jersey; David Craig, Washington Inn LuckyBones Backwater Grille, Cape May, New Jersey; Judy Richards, Westfield, New Jersey; Al Russell, The Chapter House Restaurant, Howell, New Jersey; Richard Dorchak, Cloverleaf Tavern & Restaurant, Caldwell, New Jersey; Elizabeth Alger, New Brunswick, New Jersey; George Ebinger, Barnegat, New Jersey; Thomas Budd, Barnsboro Inn, Sewell, New Jersey; Deborah Dowdell, Highland Park, New Jersey; Deborah Dowdell, New Jersey Restaurant Association, Trenton, New Jersey

The submitted comments are summarized below. The number(s) in parentheses after each comment identifies the respective commenter(s) listed above.

COMMENT: Commenters urge the Commission to recommend increasing the minimum wage to \$8 an hour in 2008 and also include an automatic annual COLA provision based upon the statewide average weekly wage. Commenters assert New Jersey's per capita income and cost of living indexes constantly rank among the highest in the nation, and therefore, New Jersey's workers and their families should not have to suffer from the vast economic inequalities and eroded purchasing power that are caused by a low minimum wage that does not keep pace with inflation. (1) (2) (3)

COMMENT: Commenter urges the Commission to raise the minimum wage to at least \$7.37 and to consider raising it to \$9.94, which allows workers to attain a level of self-sufficiency. Commenter emphasizes that an increase in the minimum wage has a negligible impact on the New Jersey's businesses and on New Jersey's employment picture. He further states the minimum wage should not be subject to partisan economic views or a rigid COLA formula and that increases in the minimum wage should take into account inflation rate and other economic factors. (4)

COMMENT: Commenter urges the Commission to recommend a "significant increase" to the minimum wage that allows the State's working poor to earn a wage that covers the real cost of living. Commenter states the following factors should be considered: "1) the context of New Jersey's high cost of living; 2) comparison of the current minimum wage to costs for basic needs (including housing, childcare, food, transportation, and other necessities); 3) changes over time of the minimum wage versus the poverty line and rate of inflation; 4) the relationship of New Jersey's minimum wage to those of other states; and 5) the evidence from economic research regarding the impact of minimum wage increases on broader employment and market trend." (5)

COMMENT: Commenter recommends the minimum wage should be increased to \$8.50 an hour and should be adjusted annually so that it is half of the State's "average wage." Among the numerous factors cited to support an increase in the minimum wage, commenter accentuates the high overall cost of living in New Jersey, the current value of the minimum wage when compared to other measures such as the federal poverty level, and the erosion of low-income workers' purchasing power when the minimum wage does not keep pace with inflation. The Commenter adds that employees who receive a majority of their income from tips should have a minimum wage that provides a base cash wage and guarantees self-sufficiency. (6)

COMMENT: Commenter endorses raising the minimum wage to half the average weekly wage and indexing future increases to average wages. Commenter asserts that setting the minimum wage at half the average wage “establishes a meaningful floor under middle class wages” and ensures that workers are “paid fairly for the work they do.” (7)

COMMENT: Commenter urges the Commission to recommend increasing the minimum wage to \$8.00 per hour and to include an automatic COLA provision based upon the “standard average weekly wage.” Commenter argues that even workers making slightly above the minimum wage are “feeling the financial squeeze of living in New Jersey as a low-wage worker.” Citing two 2006 reports, commenter concedes an increase in the minimum wage could potentially have an adverse impact on the farm sector but argues that the minimum wage has little impact on “wage inflation or employment growth in the private sector.” The commenter further provides anecdotal evidence on the effect the minimum wage has on low-wage workers in New Jersey. (8)

COMMENT: Commenter supports an increase in the minimum wage. (9)

COMMENT: Commenter urges the Commission to define the term “cost of living” and “must decide what indices are appropriate for consideration.” He adds the Commission should consider the impact a minimum wage increase would have on New Jersey employers because of the already high costs of wages, taxes, electricity, real estate, and healthcare. (10)

COMMENT: Commenter urges the Commission to oppose any increase to the minimum wage. Commenter asserts the increase would add to the costs of doing business, with the added costs getting passed on to the consumer through higher prices. He further adds that “over 90% of all wage earners in New Jersey are not the primary source of income for their household or family” and “most of the potential employees are taking their first job and in fact have no prior experience.” (11)

COMMENT: Commenters recommend the Commission consider a “Starting or Training Wage (12)” using 3 criteria: “1. payable to youth requiring working papers; 2. people under the age of 20; 3. people with no related work experience within the prior 120 days.” Commenters claim the restaurant and hospitality industry provides entry level positions to “lesser-skilled employees,” which allows the employees to gain “an excellent foundation for their future job opportunities.” They further assert the restaurant and hospitality industry “can’t absorb the ripple effect of price increases as readily as other businesses” and has been “hit particularly hard” by past increases in the minimum wage. (12)

APPENDIX I

ADDITIONAL VIEWS OF MEMBERS OF THE COMMISSION

COMMISSION MEMBER PHILIP KIRSCHNER:

The Commission report recommends a new minimum wage of \$8.25 per hour. This is a 15 percent increase over the current minimum wage of \$7.15 per hour. The Commission discussed phasing in this increase over a period of time, but a majority voted to make this recommendation in a single step. This increase will come on the heels of a 40 percent increase only two years ago. This will bring the total increase to **55 percent over three years**.

Small businesses that rely on entry level minimum wage employment simply cannot afford this increase in a single step. As these businesses struggle to try to cope with other rising costs such as energy and transportation, they simply can't afford a 55 percent increase in wages over three years. This will have a negative impact on the creation and expansion of these jobs.

While the increase should start below \$8.25, if it were raised to that rate it should be phased in over two years as the previous increase in 2005 was. Furthermore, a \$1.10 per hour increase (15.4 percent) is too large at this time, as inflation has increased only 4 percent.

Further, the concept of automatically indexing our minimum wage would set New Jersey apart from every state in the Northeast (except Vermont). None of our neighboring states indexes its minimum wage. If New Jersey raises its minimum wage to \$8.25 per hour and automatically increases it every year and New York and Pennsylvania do not, in just two years, New Jersey will be \$1.50 per hour higher than these states. This will have an extremely negative impact on the creation and expansion of these jobs and on the state's economic competitiveness as many businesses will not pay \$1.50 per hour more than New York or Pennsylvania requires for the same jobs and will relocate. Therefore, indexing is not a good idea. If there is to be indexing, it should have a provision that the minimum wage does not automatically increase when New Jersey is \$0.50 or \$1.00 per hour more than New York or Pennsylvania.

Additionally, I am concerned about the impact the increase will have on funds and costs associated with the State Average Weekly Wage (SAWW). By greatly increasing the minimum wage, the SAWW will also increase. This will lead to higher unemployment payments, temporary disability payments and workers' compensation rates over time. These increases will impact all businesses, not just those that rely on low wage employees.

In closing, I file this statement to clarify my dissenting view regarding the Commission's recommendation of: (1) an \$8.25 per hour minimum wage (2) an \$8.25 per hour minimum wage without any phase-in; (3) the inclusion of an automatic annual indexing provision for the minimum wage.

COMMISSION MEMBER ERIC RICHARD:

In April 2005, Acting Governor Codey championed and signed into law legislation sponsored by Sen. Steve Sweeney (S-2065) that phased in a \$2 increase in the minimum wage to \$7.15, the level at which it currently remains. At the time, the law provided a much needed increase to the state's minimum wage that was stagnated by years of inflation as well as remedying inaction at the federal and state levels.

However, also at that time, most supporters of the law understood and voiced their concerns that the same economic conditions present then would again erode the "real" value of the \$7.15 wage level, and that without an annual cost of living adjustment (COLA) the progress of the 2005 law would again make the present wage grossly inadequate due to New Jersey's high cost of living. I believe the report submitted by the Minimum Wage Advisory Commission illustrates this has indeed happened.

Simply stated, without a COLA, minimum wage workers will find themselves continually losing ground unless policymakers act on the issue each and every year, which rarely, if ever, happens. The alternative to this redundant problem is to enact a COLA. Rarely do policymakers get the ability to apply a "permanent" solution. The Legislature should seize this opportunity.

If a COLA were signed into law, policymakers would be sending a strong signal that the days of New Jersey residents working a full time job, yet still living in poverty, should be ended. This would allow the discussion about poverty in New Jersey to move in a new direction and evolve away from being focused on poverty level wages equal to the minimum wage and toward a new discussion about a true "living wage."

In the deliberations before the Minimum Wage Advisory Commission, I raised the need for policymakers to focus more intently on enacting a "living wage" and respectfully urge the Legislature to research this type of policy. There is a host of extremely valuable information available that could be gathered and then analyzed by the Legislature, including the effect of over 140 municipal and county local "living wage" laws that have already been passed, including several in New Jersey. This would be the first step in making New Jersey a leader on this issue that is so desperately needed for working families.

In closing, I support the Commission's recommendation to increase New Jersey's minimum wage to \$8.25 per hour immediately and to provide an annual cost-of-living adjustment to the minimum wage rate in subsequent years. However, as a member of the Commission representing the workers of New Jersey, I must strongly emphasize that workers need a much greater hourly wage to survive in our state and that we should set a goal of achieving a real "living wage" in the near future.

COMMISSION MEMBER JOANN TREZZA:

I have reviewed the report and would like to express my additional views. I voted against the recommendation of Option 1, as stated that the Commission endorsed. However, I support an increase in the minimum wage, as noted in the report, of \$8.25 per hour, provided, however that any increase is reached in multiple steps.

APPENDIX II

MEMBERS OF THE NEW JERSEY MINIMUM WAGE ADVISORY COMMISSION

<u>Commission Member</u>	<u>Designation</u>	<u>Term Expires</u>	<u>Affiliation (for information purposes only)</u>
David J. Socolow	Chairman	Ex-officio	Commissioner, NJ Department of Labor and Workforce Development
Charles N. Hall, Jr.	State AFL-CIO Rep.	12/22/2009	President, Local 108, RWDSU/UFCW
Philip Kirschner	Business Rep.	1/12/2010	President, NJ Business and Industry Association
Eric E. Richard	State AFL-CIO Rep.	12/22/2009	Legislative Director, State AFL-CIO Rep
JoAnn Trezza	Business Rep.	1/12/2010	VP, Human Resources, Arrow Group Industries

APPENDIX III

AUTHORITY AND RESPONSIBILITIES OF THE NEW JERSEY MINIMUM WAGE ADVISORY COMMISSION

Public Law 2005, c. 70, enacted April 12, 2005.

C.34:11-56a4.7 "New Jersey Minimum Wage Advisory Commission."

2. a. There is created a commission to be known as the "New Jersey Minimum Wage Advisory Commission," which shall be a permanent, independent body in but not of the Department of Labor and Workforce Development. The commission shall consist of five members as follows: the Commissioner of Labor and Workforce Development, ex officio, who shall serve as chair of the commission, and four members appointed by the Governor as follows: two persons who shall be nominated by organizations who represent the interests of the business community in this State and two persons who shall be nominated by the New Jersey State AFL-CIO.

b. Members shall be appointed not later than December 31, 2005. Members shall be appointed for four-year terms and may be re-appointed for any number of terms. Any member of the commission may be removed from office by the Governor, for cause, upon notice and opportunity to be heard. Vacancies shall be filled in the same manner as the original appointment for the balance of the unexpired term. A member shall continue to serve upon the expiration of his term until a successor is appointed and qualified, unless the member is removed by the Governor.

c. Action may be taken by the commission by an affirmative vote of a majority of its members and a majority of the commission shall constitute a quorum for the transaction of any business, for the performance of any duty, or for the exercise of any power of the commission.

d. Members of the commission shall serve without compensation, but may be reimbursed for the actual and necessary expenses incurred in the performance of their duties as members of the commission within the limits of funds appropriated or otherwise made available for that purpose.

C.34:11-56a4.8 Annual evaluation of adequacy of minimum wage.

3. a. The commission shall annually evaluate the adequacy of the minimum wage relative to the following factors:

- (1) The overall cost of living in the State;
- (2) Changes in the components of the cost of living which have the greatest impact on low-income families, including increases in the cost of housing, food, transportation, health care and child care;
- (3) The cost of living in the State compared to that of other states;

(4) Changes in the purchasing power of the minimum wage; and

(5) Changes in the value of the minimum wage relative to the federal poverty guidelines, the federal lower living standard income level guidelines and the self-sufficiency standards established as goals for State and federal employment and training services pursuant to section 3 of P.L.1992, c.43 (C.34:15D-3) and section 1 of P.L.1992, c.48 (C.34:15B-35).

b. In furtherance of its evaluation, the commission may hold public meetings or hearings within the State on any matter or matters related to the provisions of this act, and call to its assistance and avail itself of the services of the John J. Heldrich Center for Workforce Development and the employees of any other State department, board, commission or agency which the commission determines possesses relevant data, analytical and professional expertise or other resources which may assist the commission in discharging its duties under this act. Each department, board, commission or agency of this State is hereby directed, to the extent not inconsistent with law, to cooperate fully with the commission and to furnish such information and assistance as is necessary to accomplish the purposes of this act.

c. The commission shall submit a written report of its findings regarding the adequacy of the minimum wage and its recommendations as to whether, or how much, to increase the minimum wage to the Governor and to the Legislature, who shall immediately review the commission report upon its receipt. Each House of the Legislature shall consider the commission report within 120 days of the receipt of the report. The first report shall be submitted to the Legislature no sooner than October 1, 2007 and no later than December 31, 2007, and subsequent reports shall be submitted in one year intervals thereafter.